

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB40

Annual and transition reports of small business issuers [Section 13 or 15(d), S-B Item 405]

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FILER

HERITAGE OAKS BANCORP

CIK: **921547** | IRS No.: **953763629** | State of Incorporation: **CA** | Fiscal Year End: **1231**
Type: **10KSB40** | Act: **34** | File No.: **000-25020** | Film No.: **99574389**
SIC: **6022** State commercial banks

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 for the Year ended DECEMBER 31, 1998

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 0-25020

<TABLE>
<CAPTION>

HERITAGE OAKS BANCORP

(Exact name of registrant as specified in its charter)

<S> State of California ----- (State or other jurisdiction of employee incorporation or organization)	<C> 77-0388249 ----- (I.R.S. Identification No.)
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545 12th Street, Paso Robles, California 93446 ----- (Address of principal executive offices) (Zip Code)	(805) 239-5200 ----- Registrant's telephone number, including area code
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Securities registered pursuant to Section 12(b) of the Act: None

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

Title of each class -----	Name of each exchange on which registered -----
Common Stock, (no par value)	None

</TABLE>

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-B is not contained herein, and will not be contained, to
the best of the registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-KSB or any
amendment to this Form 10-KSB .

Registrant's revenues for 1998 were \$14,351,468. The aggregate market value
of the voting stock held by non-affiliates of the Registrant at March 1st,
1999 was \$12,078,804. As of March 1st, 1999, the Registrant had 1,113,950
shares of Common Stock outstanding.

The following documents are incorporated by reference into Part III, Items
9 through 12 of Registrant's definitive proxy statement for the 1999 annual
meeting of shareholders.

Transitional Small Business Disclosure Format (check one) Yes No

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PART I
ITEM 1. DESCRIPTION OF BUSINESS

General

Heritage Oaks Bancorp (the "Company") is a California corporation organized
in 1994 to act as the bank holding company of Heritage Oaks Bank (the
"Bank"). In 1994, the Company acquired all of the outstanding common stock of
the Bank in a holding company formation transaction. Other than holding the
shares of the Bank, the Company conducts no significant activities, although
it is authorized, with the prior approval of the Board of Governors of the
Federal Reserve System (the "Federal Reserve Board"), the Company's principal

regulator, to engage in a variety of activities which are deemed closely related to the business of banking.

Banking Services

The Bank was licensed by the California Department of Financial Institutions ("DFI") and commenced operation in January 1983. As a California state bank, the Bank is subject to primary supervision, examination and regulation by the DFI and the Federal Deposit Insurance Corporation ("FDIC"). The Bank is also subject to certain other federal laws and regulations. The deposits of the Bank are insured by the FDIC up to the applicable limits thereof. The Bank is not a member of the Federal Reserve System. At December 31, 1998, the Company had approximately \$131.2 million in assets, \$69.8 million in net loans, \$119.4 million in deposits, and \$9.4 million in stockholders' equity.

The Bank is headquartered in Paso Robles with a branch office in Paso Robles, two branches in San Luis Obispo and a branch office in Cambria, a loan production office located in Grover Beach, a new full service branch located in Santa Maria which opened February 1, 1999 and a new full service branch located in Atascadero scheduled to open March 15, 1999. The Bank conducts a commercial banking business in San Luis Obispo County, Northern Santa Barbara County and Northern Monterey County, including accepting demand, savings and time deposits, and making commercial, real estate, SBA, agricultural, credit card, and consumer loans. It also offers installment note collection, provides POS terminals and processing, issues cashiers checks and money orders, sells travelers checks, and provides bank-by-mail, night depository, safe deposit boxes, and other customary banking services. The Bank does not offer trust services or international banking services and does not plan to do so in the near future.

The Bank's operating policy since its inception has emphasized small business commercial and retail banking. Most of the Bank's customers are retail customers, farmers and small to medium-sized businesses. The Bank takes real estate, listed and unlisted securities, savings and time deposits, automobiles, machinery and equipment as collateral for loans. The areas in which the Bank has directed virtually all of its lending activities are (i) commercial and agricultural loans, (ii) installment loans, (iii) construction loans, and (iv) other real estate loans or commercial loans secured by real estate. As of December 31, 1998, these four categories accounted for approximately 53.7%, 4.1%, 11.7% and 30.5% respectively, of the Bank's loan portfolio. As of December 31, 1998, \$30,029,859 or 42.2% of the Bank's \$71,185,609 in gross loans consisted of interim construction and real estate loans, primarily for single family residences or for commercial development. Additionally, commercial and agricultural loans grew \$12.9 million (approximately 50.9%) between year end 1997 and year end 1998. See "Item 6 - Management's Discussion and Analysis of Financial Condition and Results of Operations."

Most of the Bank's deposits are attracted by local promotional activities and advertising in the local media. A material portion of the Bank's deposits have not been obtained from a single person or a few persons, the loss of any one or more of which would have a materially adverse effect on the business of the Bank. As of December 31, 1998, the Bank had approximately 9,808 deposit accounts consisting of non-interest bearing (demand), interest-bearing demand and money

market accounts with balances totaling \$78,684,513 for an average balance per account of approximately \$8,022; 4,347 savings accounts with balances totaling \$11,592,944 for an average balance per account of approximately \$2,667; and 1,199 time certificate of deposit accounts with balances totaling \$29,130,249, for an average balance per account of approximately \$24,295.

The principal sources of the Banks revenues are (i) interest and fees on loans, (ii) interest on investments, (iii) service charges on deposit accounts and other charges and fees, and (iv) ATM transaction fees, sponsorship fees and interchange income, (v) bankcard merchant fees and (vi) mortgage organization fees (vii) miscellaneous income. For the year ended December 31, 1998, these sources comprised 45.0%, 10.7%, 4.8%, 29.7%, 5.3%, 2.1% and 2.4%, respectively, of the Bank's total operating income. ATM transaction fees, sponsorship fees and interchange income is anticipated to reduce from this level in 1999.

The Bank has arranged to install 58 cash dispensing machines for the purpose of dispensing cash at 10 sites on Native American lands where bingo games and other gaming operations are conducted, at other commercial locations, and at the Bank's 8 offices. The Bank receives a transaction fee for each completed transaction on the cash dispensing machines at the gaming sites. In previous years, the Bank shared a portion of the fees with two individuals who had

helped to make these arrangements and with the tribes on whose lands the cash dispensing machines are installed. During September 1996, the Bank bought out the interest of one of the individuals. During April 1997, the Bank bought out the interest of the other individual. In prior years, the Bank only received the net earnings from the surcharge revenue received from the gaming network. After the Bank had purchased the interest of the two individuals, it then assumed all direct costs and received all of the revenue net of the amounts that are still paid to the tribes on whose land the casinos are located. The contract buy outs are being amortized over a period of 18 to 36 months.

The total amortization expense for 1998 was \$260,007 with the remaining unamortized cost on the books at December 31, 1998 was \$77,917.

The Company has also caused to be incorporated a proposed subsidiary, CCMS Systems, Inc. which is currently inactive and has not been capitalized. The Company has no present plans to activate the proposed subsidiary.

The Bank has not engaged in any material research activities relating to the development of new services or the improvement of existing bank services. There has been no significant change in the types of services offered by the Bank since its inception. The Bank has no present plans regarding "a new line of business" requiring the investment of a material amount of total assets. Most of the Banks business originates from San Luis Obispo, Northern Santa Barbara and Southern Monterey Counties and there is no emphasis on foreign sources and application of funds. The Banks business, based upon performance to date, does not appear to be seasonal. Management of the Bank is unaware of any material effect upon the Banks capital expenditures, earnings or competitive position as a result of federal, state or local environmental regulations.

The Bank holds no patents, licenses (other than licenses obtained from bank regulatory authorities), franchises or concessions.

When the Company uses or incorporates by reference in this Annual Report on Form 10-KSB (The "Annual Report") the words "anticipate", "estimate", "expect", "project", "intend", "commit", "believe" and similar expressions, the Company intends to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions, including those described in this Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed.

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Employees

As of February 1, 1999, the Bank had a total of 68 full-time equivalent employees. The management of the Bank believes that its employee relations are satisfactory. The Company has only one salaried employee (the internal auditor). The Company's officers all hold similar positions at the Bank and receive compensation from the Bank.

Competition

The banking and financial services business in California generally, and in the Banks market area specifically, is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers.

The Bank's business is concentrated in its service area, which encompasses San Luis Obispo County, Northern Santa Barbara County and Northern Monterey County. In order to compete with other financial institutions in its service area, the Bank relies principally upon local advertising programs; direct personal contact by officers, directors, employees, and shareholders; and specialized services such as courier pick-up and delivery of non-cash banking items. The Bank emphasizes to its customers the advantages of dealing with a locally owned and community oriented institution. The Bank also seeks to provide special services and programs for individuals in its primary service area who are employed in the agricultural, professional and business fields, such as loans for equipment, furniture, tools of the trade or expansion of practices or businesses. Larger banks may have a competitive advantage because of higher lending limits and major advertising and marketing campaigns. They also perform services, such as trust services, international banking, discount brokerage and insurance services which the Bank is not authorized or prepared to offer currently. The Bank has made arrangements with its correspondent banks and with others to provide such services for its customers. For borrowers requiring loans in excess of the Bank's legal lending limits, the Bank has offered, and intends to offer in the future,

such loans on a participating basis with its correspondent banks and with other independent banks, retaining the portion of such loans which is within its lending limits. As of December 31, 1998, the Bank's legal lending limits to a single borrower and such borrower's related parties were \$1,443,725 on an unsecured basis and \$2,406,209 on a fully secured basis based on regulatory capital of \$9,624,836.

Commercial banks compete with savings and loan associations, credit unions, other financial institutions, securities and brokerage firms, and other entities for funds. For instance, yields on corporate and government debt securities and other commercial paper affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for loans with savings and loan associations, credit unions, consumer finance companies, mortgage companies and other lending institutions.

In recent years competition for cash dispensing machines on Native American lands in connection with gaming operations has increased and no assurance can be given that the Bank will be able to continue to provide these services at as many locations and with the same degree of profitability as in the past. The Company believes that the profitability on such business will reduce in 1999 from the levels of 1998.

Effect of Governmental Policies and Recent Legislation

Banking is a business that depends on rate differentials. In general, the difference between the interest rate paid by the Bank on its deposits and its other borrowings and the interest rate received by the Bank on loans extended to its customers and securities held in the Bank's portfolio comprise the major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank. Accordingly, the earnings and growth of the Bank are subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment.

The commercial banking business is not only affected by general economic conditions but is also influenced by

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the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Federal Reserve Board. The Federal Reserve Board implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory and other professional agencies. For example, legislation has been introduced in Congress that would repeal the current statutory restrictions on affiliations between commercial banks and securities firms. See "Financial Modernization Legislation."

Supervision and Regulation

The Company and the Bank is extensively regulated under both federal and state law. Set forth below is a summary description of certain laws which relate to the regulation of the Company and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

The Company

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"), and is registered as such with, and subject to the supervision of, the Federal Reserve Board. The Company is required to file with the Federal Reserve Board quarterly and annual reports and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may conduct examinations of bank holding companies and their subsidiaries.

The Company is required to obtain the approval of the Federal Reserve Board before it may acquire all or substantially all of the assets of any bank, or ownership or control of the voting shares of any bank if, after giving effect

to such acquisition of shares, the Company would own or control more than 5% of the voting shares of such bank. Prior approval of the Federal Reserve Board is also required for the merger or consolidation of the Company and another bank holding company.

The Company is prohibited by the Bank Holding Company Act, except in certain statutorily prescribed instances, from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging, directly or indirectly, in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiaries. However, the Company may, subject to the prior approval of the Federal Reserve Board, engage in any, or acquire shares of companies engaged in, activities that are deemed by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The Federal Reserve Board may require that the Company terminate an activity or terminate control of or liquidate or divest subsidiaries or affiliates when the Federal Reserve Board determines that the activity or the control of the subsidiary or affiliates constitutes a significant risk to the financial safety, soundness or stability of any of its banking subsidiaries. The Federal Reserve Board also has the authority to regulate provisions of certain bank holding company debt, including authority to impose interest ceilings and reserve requirements on such debt. Under certain circumstances, the Company must file written notice and obtain approval from the Federal Reserve Board prior to purchasing or redeeming its equity securities.

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Under the Federal Reserve Board's regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe and unsound manner. In addition, it is the Federal Reserve Board's policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board's regulations or both.

The Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and filed reports and proxy statements pursuant to such Act with the Securities and Exchange Commission ("SEC")

The Bank

The Bank is chartered under the laws of the State of California and its deposits are insured by the FDIC to the extent provided by law. The Bank is subject to the supervision of, and is regularly examined by, the DFI and the FDIC. Such supervision and regulation include comprehensive reviews of all major aspects of the Bank's business and condition.

Various requirements and restrictions under the laws of the United States and the State of California affect the operations of the Bank. Federal and California statutes relate to many aspects of the Bank's operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends and locations of branch offices. Further, the Bank is required to maintain certain levels of capital.

Capital Standards

The Federal Reserve Board and the FDIC have adopted risk-based minimum capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions, such as letters of credit and recourse arrangements, which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. Treasury securities, to 100% for assets with relatively high credit risk, such as business loans.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk adjusted assets. The regulators measure risk-adjusted assets, which includes off balance sheet items, against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. Tier 1 capital consists primarily of

Total risk-based capital of 10%;
Tier 1 risk-based capital of 6%; and
Leverage ratio of 5%.

Total risk-based capital of 8%;
Tier 1 risk-based capital of 4%;
and Leverage ratio of 4%.

"Undercapitalized"

"Significantly undercapitalized"

Total risk-based capital less than 8%;
Tier 1 risk-based capital less than 4%; or
Leverage ratio less than 4%.

Total risk-based capital less than
6%; Tier 1 risk-based capital less
than 3%; or Leverage ratio less
than 3%.

"Critically undercapitalized"

Tangible equity to total assets less than 2%.

An institution that, based upon its capital levels, is classified as "well capitalized," "adequately capitalized" or undercapitalized" may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat an institution as "critically undercapitalized" unless its capital ratio actually warrants such treatment.

The law prohibits insured depository institutions from paying management fees to any controlling persons or, with certain limited exceptions, making capital distributions if after such transaction the institution would be undercapitalized. If an insured depository institution is undercapitalized, it will be closely monitored by the appropriate federal banking agency, subject to asset growth restrictions and required to obtain prior regulatory approval for acquisitions, branching and engaging in new lines of business. Any undercapitalized depository institution must submit an acceptable capital restoration plan to the appropriate federal banking agency 45 days after becoming undercapitalized. The appropriate federal banking agency cannot accept a capital plan unless, among other things, it determines that the plan (i) specifies the steps the institution will take to become adequately capitalized, (ii) is based on realistic assumptions and (iii) is likely to succeed in restoring the depository institution's capital. In addition, each company controlling an undercapitalized depository institution must guarantee that the institution will comply with the capital plan until the depository institution has been adequately capitalized on an average basis during each of four consecutive calendar quarters and must otherwise provide adequate assurances of performance. The aggregate liability of such guarantee is limited to the lesser of (a) an amount equal to 5% of the depository institution's total assets at the time the institution became undercapitalized or (b) the amount which is necessary to bring the institution into compliance with all capital standards applicable to such institution as of the time the institution fails to comply with its capital restoration plan. Finally, the appropriate federal banking agency may impose any of the additional restrictions or sanctions that it may impose on significantly undercapitalized institutions if it determines that such action will further the purpose of the prompt correction action provisions.

An insured depository institution that is significantly undercapitalized, or is undercapitalized and fails to submit, or in a material respect to implement, an acceptable capital restoration plan, is subject to additional restrictions and sanctions. These include, among other things: (i) a forced sale of voting shares to raise capital or, if grounds exist for appointment of a receiver or conservator, a forced merger; (ii) restrictions on transactions with affiliates; (iii) further limitations on interest rates paid on deposits; (iv) further restrictions on growth or required shrinkage; (v) modification or termination of specified activities; (vi) replacement of directors or senior executive officers; (vii) prohibitions on the receipt of deposits from correspondent institutions; (viii) restrictions on capital distributions by the holding companies of such institutions; (ix) required divestiture of subsidiaries by the institution; or (x) other restrictions as determined by the appropriate federal banking agency. Although the appropriate federal banking

agency has discretion to determine which of the foregoing restrictions or sanctions it will seek to impose, it is required to force a sale of voting shares or merger, impose restrictions on affiliate transactions and impose restrictions on rates paid on deposits unless it determines that such actions

would not further the purpose of the prompt corrective action provisions. In addition, without the prior written approval of the appropriate federal banking agency, a significantly undercapitalized institution may not pay any bonus to its senior executive officers or provide compensation to any of them at a rate that exceeds such officer's average rate of base compensation during the 12 calendar months preceding the month in which the institution became undercapitalized.

Further restrictions and sanctions are required to be imposed on insured depository institutions that are critically undercapitalized. For example, a critically undercapitalized institution generally would be prohibited from engaging in any material transaction other than in the ordinary course of business without prior regulatory approval and could not, with certain exceptions, make any payment of principal or interest on its subordinated debt beginning 60 days after becoming critically undercapitalized. Most importantly, however, except under limited circumstances, the appropriate federal banking agency, not later than 90 days after an insured depository institution becomes critically undercapitalized, is required to appoint a conservator or receiver for the institution. The board of directors of an insured depository institution would not be liable to the institution's shareholders or creditors for consenting in good faith to the appointment of a receiver or conservator or to an acquisition or merger as required by the regulator.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease and desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Premiums for Deposit Insurance

All deposits of the Bank are insured by the FDIC through the Bank Insurance Fund ("BIF") which are subject to FDIC insurance assessment. The amount of FDIC assessment paid by individual insured depository institutions is based upon their relative risk as measured by regulatory capital ratios and certain other factors. During 1995, the FDIC significantly reduced premium rates assessed on deposits insured by the BIF. As a result of its "Well Capitalized" status, the Bank paid \$20,153 in 1998.

Financial Modernization Legislation

Various proposals to adopt comprehensive financial modernization legislation have been introduced in Congress which include, among other things, elimination of the federal thrift charter, creation of a uniform financial institutions charter, expansion of bank powers, and integration of banking, commerce, securities activities and insurance. In May 1998, the House passed legislation that would have overhauled the financial services industry and would have, among other things, allowed mergers among banking, securities and insurance firms. Congress adjourned for 1998 without the passage of similar legislation by the Senate. Similar legislation has already been introduced in both houses of Congress in the current session. It is currently impossible to predict whether and in

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what form financial reform legislation will be passed in 1999 or in the future or what the impact of such legislation might be on the Company, its financial condition and business as well as its results of operations.

Community Reinvestment Act

The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act ("CRA") activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of their local communities, including low and moderate income neighborhoods. In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities.

In connection with its assessment of CRA performance, the appropriate bank regulatory agency assigns a rating of "outstanding," "satisfactory," "needs

to improve" or "substantial noncompliance." At its last examination by the FDIC, the Bank received a CRA rating of "Satisfactory."

Accounting Changes

From time to time the Financial Accounting Standards Board ("FASB") issues pronouncements which govern the accounting treatment for the Company's financial statements. For a description of the recent pronouncements applicable to the Company (see the Notes to the Financial Statements included in Item 7 of this Report). The FASB recently proposed for comment a change in the accounting rules relating to mergers and acquisitions. Specifically, the "pooling method" of accounting for mergers would be eliminated. Financial institutions often prefer to account for mergers using this method and many of the mergers in the financial institutions industry in the last several years have been accounted for using the pooling method. The impact of such accounting change, if adopted, on mergers and acquisitions involving financial institutions and upon the Company and the value of its Common Stock can not presently be predicted.

Potential Enforcement Actions

Commercial banking organizations, such as the Company and the Bank, may be subject to potential enforcement actions by the Federal Reserve Board, the DFI and the FDIC for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease and desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

ITEM 2. DESCRIPTION OF PROPERTIES

The Bank and the Company occupy a permanent headquarters facility which is located at 545 Twelfth Street, Paso Robles, Ca. The purchase price for the headquarters, was approximately \$1,000,000 for the building and land. This building has approximately 9,000 square feet of space and off-street parking. The Bank has remodeled this building at an approximate cost of \$300,000.

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The Bank has a non-banking office, located at 600 Twelfth Street, Paso Robles (directly across from its present headquarters) which was purchased by the Bank on December 23, 1986, for approximately \$400,000 from an unaffiliated party.

In June of 1994, the Bank opened a branch at 171 Niblick Rd., Paso Robles, Ca. The Bank leases this 1,400 square foot branch for \$2,135 per month. On March 6, 1997, the Bank renewed the lease for an additional three year term.

On June 26, 1997 the Bank executed a lease for its branch office at 297 Madonna Road, San Luis Obispo. The branch was previously located in premises which were acquired from La Cumbre Savings which lease expired in 1997. The new branch lease is for 6,200 square feet of which the Bank subleases approximately 58% to another firm and uses 42%. The other firm pays 58% of the rent and expenses and the Bank pays 42%. The rent under the lease for the entire space starts at \$6,200/month for the first year; \$6,280/month for the next two years; \$7,750/month for the next two years the rent is then repriced in year six of the lease to 95% of the prevailing fair market value and then increases each year thereafter at the greater of the consumer price index or 2.5% until the lease expires on June 30, 2009.

The Bank opened a branch office at 1135 Santa Rosa Street in downtown San Luis Obispo, Ca in April 1996. The Bank is leasing a building containing approximately 5,618 square feet for \$5,555 per month for the next four years. The lease payment will increase by approximately \$500 per month during the next 4 years. The lease will expire on February 28, 2001 at which time the Bank has an option to renew the lease for an additional 5 years.

On February 21, 1997, the Bank acquired the Cambria branch of Wells Fargo Bank located at 1276 Tamson Drive, Cambria. The Bank leases this 2,916 square foot branch for rent of \$2,208 per month, subject to adjustments for cost of living increases and certain pass-throughs. The lease will expire in 2004 at which time the Bank has an option to renew the lease for two additional five year terms.

On August 26, 1998, the Company purchased property located at 9900 El Camino

Real, Atascadero. The purchase price was \$271,160. The corporation has entered into a contract with Sabaloni Construction to construct a building with a total of 3,500 square feet of floor space. The total costs of improvements will be \$363,000 plus furniture and fixtures. Once complete, the bank will enter into a long term lease with the corporation to occupy the building.

On November 1, 1998, the bank entered into a 10 year lease with an affiliated party to lease property known as 1660 South Broadway, Santa Maria, Ca. The lease calls for monthly payments based on a triple net price of \$1.15 per square foot or \$5,395 per month. The rent will adjust each November by the Consumer Price Index or a maximum of 6%. The lease will expire on October 31, 2008, with the banking having three five year options to renew.

On August 1, 1998 the bank entered into a one year lease agreement to lease property located at 960 Grand Ave, Suite 1, Grover Beach, Ca.. The lease calls for a payment of \$1,000 per month triple net. At the maturity, the lease will convert to a month to month lease at the same payment terms. The bank operates a loan production office out of this facility.

ITEM 3. LEGAL PROCEEDINGS

The Bank is, from time to time, subject to various pending and threatened legal actions which arise out of the normal course of its business. Neither the Company nor the Bank is a party to any pending legal or administrative proceedings (other than ordinary routine litigation incidental to the Company's or the Bank's business) and no such proceedings are known to be contemplated.

There are no material proceedings adverse to the Company or the Bank to which any director, officer, affiliate of the Company or 5 % shareholder of the Company or the Bank, or any associate of any such director, officer, affiliate or 5%

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shareholder of the Company or Bank is a party, and none of the above persons has a material interest adverse to the Company or the Bank.

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

NO MATTERS WERE SUBMITTED TO A VOTE OF SECURITY HOLDERS DURING THE FOURTH QUARTER OF 1998.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

There is a limited over-the-counter market for the Company's Common Stock. The Company's Common Stock is not listed on any exchange or market. However, Maguire Investments, Inc., Hoefer & Arnett, Inc., Pacific Crest Securities and Sutro & Co. make a market in the Company's Common Stock. Certain information concerning the Common Stock is reported on the NASDAQ electronic bulletin board under the symbol "HEOP."

The information in the following table indicates the high and low bid prices of the Company's Common Stock for each quarterly period during the last two years based upon information provided by Maguire Investments, Inc., Hoefer & Arnett, Inc., Pacific Crest Securities and Sutro & Co.. These prices do not include retail mark-ups, mark-downs or commission.

<TABLE>
<CAPTION>

Quarter Ended	Bid Prices (1)	
	Low	High
1998		
<S>	<C>	<C>
March 31	\$13.50	\$16.00
June 30	15.75	16.75
September 30	16.00	17.75
December 31	16.00	17.00
1997	Low	High

12

March 31	\$8.00	\$10.00
June 30	10.00	11.33
September 30	10.33	11.33
December 31	11.50	12.67

</TABLE>

(1) All per share information has been retroactively adjusted for the three-for-two stock split paid on November 5, 1997

Holder's

As of February 1, 1999, there were approximately 550 holders of the Company's Common Stock. There are no other classes of equity outstanding.

Dividends

The Company is a legal entity separate and distinct from the Bank. The Company's shareholders are entitled to receive dividends when and as declared by its Board of Directors, out of funds legally available therefore, subject to the restrictions set forth in the California General Corporation Law (the "Corporation Law"). The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution. The Corporation Law also provides that, in the event that sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if it meets two conditions, which generally stated are as follows: (i) the corporation's assets equal at least 1-1/4 times its liabilities, and (ii) the corporation's current assets equal at least its current liabilities or, if the average of the corporation's earnings before taxes on income and before interest expenses for the two preceding fiscal years was less than the average of the corporation's interest expenses for such fiscal years, then the corporation's current assets must equal at least 1-1/4 times its current liabilities.

The ability of the Company to pay a cash dividend depends largely on the Bank's ability to pay a cash dividend to the Company. The payment of cash dividends by the Bank is subject to restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of (a) the bank's retained earnings; or (b) the bank's net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the shareholders of the bank during such period. However, a bank may, with the approval of the DFI, make a distribution to its shareholders in an amount not exceeding the greater of (x) its retained earnings; (y) its net income for its last fiscal year; or (z) its net income for its current fiscal year. In the event that the DFI determines that the shareholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the DFI may order the bank to refrain from making a proposed distribution. The FDIC may also restrict the payment of dividends if such payment would be deemed unsafe or unsound or if after the payment of such dividends, the Bank would be included in one of the "undercapitalized" categories for capital adequacy purposes pursuant to federal law. (See, "Item 1 - Description of Business - Prompt Corrective Action and Other Enforcement Mechanisms.") Additionally, while the Federal Reserve Board has no general restriction with respect to the payment of cash dividends by an adequately capitalized bank to its parent holding company, the Federal Reserve Board might, under certain circumstances, place restrictions on the ability of a particular bank to pay dividends based upon peer group averages and the performance and maturity of the particular bank, or object to management fees to be paid by a subsidiary bank to its holding company on the basis that such fees cannot be supported by the value of the services rendered or are not the result of an arm's length transaction.

Under these provisions and considering minimum regulatory capital requirements, the amount available for distribution from the Bank to the Company was approximately \$2,450,800 at December 31, 1998.

The following table sets forth the per share amount and month of payment for all cash dividends paid since January 1, 1997:

<TABLE>

<CAPTION>

Month Paid	Amount Per Share (2)
<S>	<C>
February, 1997	.33

</TABLE>

2) Per share information has been retroactively adjusted for the three-for-two stock split paid on November 5, 1997.

On January 28, 1999, the Board of Directors declared a 4% stock dividend for shareholders of record as of February 15, 1999. The stock dividend will be distributed on February 26, 1999.

Whether or not stock dividends or any cash dividends will be paid in the future will be determined by the Board of Directors after consideration of various factors. The Company's profitability and regulatory capital ratios in addition to other financial conditions will be key factors considered by the Board of Directors in making such determinations regarding the payment of dividends by the Company.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is an analysis of the financial condition and results of operations of the Company for the two years ended December 31, 1998. The analysis should be read in connection with the consolidated financial statements and notes thereto appearing elsewhere in this report.

On November 15, 1994, the Company acquired all of the assets and assumed all of the liabilities of the Bank. Each shareholder of the Bank received one share of stock in the Company in exchange for one share of Bank stock. The Bank became a wholly owned subsidiary of the Company. The Bank is the only active subsidiary owned by the Company.

EARNINGS OVERVIEW

The Company reported net income for 1998 of \$1,346,595. This was a 6.8% increase from the \$1,261,064 reported in 1997. Net income reported for 1997 represented an increase of \$347,233 or 38.0% more than 1996 net income of \$913,831. Basic earnings per share were \$1.24, \$1.18 and \$0.88 at December 31, 1998, 1997 and 1996, respectively. Diluted earnings per share were \$1.24, \$1.18 and \$0.88 at December 31, 1998, 1997 and 1996, respectively.

RETURN ON EQUITY AND ASSETS

DECEMBER 31,

<TABLE>

<CAPTION>

	1998	1997
	----	----
<S>	<C>	<C>
Return on Average Assets	1.24%	1.41%
Return on Average Equity	16.11%	16.61%
Dividend Payout Ratio	40.32%	43.98%
Average Equity to		
		14
Average Assets Ratio	8.04%	8.48%
Return on Average Interest Bearing Assets	5.94%	6.02%
Average Loans to Average Deposits	65.84%	65.79%

</TABLE>

Net Interest Income and Interest Margin

Net interest income, the primary component of the net earnings of a financial institution, refers to the difference between the interest paid on deposits and borrowings, and the interest earned on loans and investments. The net interest margin is the amount of net interest income expressed as a percentage of average earning assets. Factors considered in the analysis of net interest income are the composition and volume of earning assets and interest-bearing liabilities, the amount of non-interest bearing liabilities and nonaccrual loans, and changes in market interest rates.

Net interest income before provision for possible loan losses for 1998 was

\$5,446,365 an increase of \$973,362 or 21.7% more than the \$4,473,003 in 1997. The increase in net interest income for 1998 compared to 1997 was attributable to a \$17,392,000 increase in average earning assets at an average rate of 8.7%. The average interest-bearing liabilities for 1998 increased by \$10,848,000. The increase in net interest income resulted primarily from the large increase in interest earning assets over the increase in interest bearing liabilities. The average rate paid on interest bearing liabilities in 1998 was 3.37% compared to 3.42% in 1997. The average non-interest bearing demand deposits increased by \$6,463,000 over 1997. Other low cost deposits such as savings, now and money market accounts grew an average \$6,978,000 with a weighted average rate of 2.35%. The higher cost time deposits increased an average of \$3,739,000. These changes reflect a major effort by the Bank to adjust its liability mix to increase its level of demand deposits and savings accounts. Total income on the loan portfolio increased from \$5,505,740 in 1997 to \$6,459,394 in 1998. This was due to an average increase in the loan portfolio of \$11,661,000.

The average yield on earning assets was 8.71% and 9.00% for 1998 and 1997, respectively. The average yield on interest bearing liabilities was 3.37% for 1998, compared to 3.42% for 1997. The net interest margin was 5.94% in 1998 compared to 6.02% in 1997.

The following tables set forth average balance sheet information, interest income and expense, average yields and rates and net interest income and margin for the years ended December 31, 1998 and 1997. The average balance of nonaccruing loans has been included in loan totals.

AVERAGE BALANCE SHEET INFORMATION

<TABLE>

<CAPTION>

1998 (dollars in thousands)	1997 Average Balance	Avg. Yield Rate paid	Interest Amount	Average Balance	Avg. Yield Rate paid	Interest Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Earning Assets:						
Time deposits with other Banks	\$ 425	5.65%	\$ 24	\$ 190	5.79%	\$ 11
Investment securities taxable	17,522	5.97%	1,058	15,732	5.71%	899
Investment securities non-taxable	5,266	4.80%	253	2,716	4.68%	127
Federal funds sold	3,749	5.25%	197	2,593	5.48%	142
Loans (1) (2)	64,734	9.98%	6,459	53,073	10.37%	5,506
Total interest earning assets	91,696	8.71%	7,991	74,304	9.00%	6,685
Allowance for possible loan losses	(974)			(849)		
Non-earning assets:						
Cash and due from banks	11,993			10,638		
Property, premises, & equipment	2,245			1,981		
Other assets	3,258			3,387		
TOTAL ASSETS	\$108,218			\$89,461		
Interest-bearing liabilities:						
Savings, now, & money market	\$48,509	2.35%	\$1,142	\$41,531	2.53%	\$1,050
Time deposits	25,923	5.16%	1,338	22,184	4.99%	1,106
Other borrowings	1,104	5.80%	64	973	5.76%	56
Total interest-bearing liabilities	75,536	3.37%	2,544	64,688	3.42%	2,212
Non-interest-bearing liabilities:						
Demand deposits	22,445			15,982		
Other liabilities	1,876			1,201		
Total liabilities	99,857			81,871		
Stockholders' equity:						
Common stock			4,232			4,135
Retained earnings	4,468			3,867		
Valuation allowance investments	(339)			(412)		
Total stockholders' equity	8,361			7,590		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$108,218			\$89,461		
Net interest income			\$5,447			\$4,473

receives income for each transaction and as the volume increases so does the related income. The competition related to the installation of ATM machines has been increasing and the increased competition could reduce future income from existing machines. To offset this lost revenue the Bank is actively seeking new locations. During the fourth quarter of 1998, 6 ATMs in a particular gaming facility were shut down due to the owners change in operating policy. These machines were removed at an expense of approximately \$125,000 to the bank. The net earnings from All ATM operations before deducting for overhead expenses and salaries were \$1,506,032, \$1,493,778, and \$1,419,244, for the years ended December 31, 1998, 1997, and 1996, respectively. Bankcard merchant fees were \$757,380 in 1998 compared to \$697,159 in 1997. The increase in merchant fees was due to an expansion in the number of merchants added by the Bank during the year.

Non-Interest Expenses

Non-interest expenses have increased as a result of the Bank's growth in its branches and ATM network. Several new retail ATM locations were opened during the year. The bank opened a new loan production office in August, 1998, opened escrow to purchase property for a new branch in Atascadero, Ca. in April, 1998 and entered into a new lease to open a new branch in Santa Maria, Ca. in November, 1998. On February 1, 1999, the Bank opened a full service branch office in the newly leased facility in Santa Maria.

Salaries and employee benefit expenses were \$2,892,921 and \$2,402,600 for 1998 and 1997 respectively. Full time equivalent employees were 68 for 1998 and 62 for 1997. The increase in salary and benefit expense is attributable to increased staffing attributable to the bank's growth during the year. Staff for the Atascadero and Santa Maria branches were brought on board late in 1998 for training and business development. Bonus expense and related payroll tax expense increased approximately \$80,000 over the previous year. The ratio of "assets per employee," one of the measures of operational efficiency, was \$1,924,245 and

17

\$1,504,923 for 1998, and 1997 respectively. Occupancy, furniture and equipment expenses were \$923,207 during 1998, compared to \$782,217 incurred in 1997. As is noted elsewhere in this document, preparation for Year 2000 compliance has added to the equipment expense for 1998.

Other expenses increased to \$5,752,419 in 1998 as compared to \$4,047,572 in 1997. The increase in other expenses reflects costs associated with growth of the Bank, and \$1,008,619 increase in cost associated with the growth of the ATM network. The ATM cost increased as a result of the purchase of the interest of two participants in the ATM network in 1997. Previously, the Bank only received the net income from these ATM networks and now they are directly responsible for paying all of the expenses associated with the operation of the ATM networks.

Bankcard merchant expenses were \$864,970 for 1998, compared to \$604,011 for 1997 the increase resulted from the expansion in the number of merchants processed by the Bank. A \$103,000 provision for possible Point Of Sale Loss was made in 1998 to provide adequate protection against possible losses associated with merchant processing activities.

Provision for Income Taxes

The provision for income taxes was \$728,026 for 1998 compared to \$781,732 in 1997. The decrease in the provision is the result of increased tax-exempt investments. The Bank's effective tax rate was 35.1% and 38.3% in 1998 and 1997, respectively.

Provision and Allowance for Credit Losses

The allowance for credit losses is based upon management's evaluation of the adequacy of the existing allowance for outstanding loans. This allowance is increased by provisions charged to expense and reduced by loan charge-offs net of recoveries. Management determines an appropriate provision based upon loan growth during the period, a comprehensive grading and review formula for loans outstanding and historical loss experience. In addition, management periodically reviews the condition of the loan portfolio including the value of security interest related to portfolio loans and the economic circumstances which may affect the value of portfolio loans to determine the adequacy of the allowance. The evaluation of the allowance is reviewed by management and reported on an ongoing basis to the Company's Loan Committee, Audit Committee and Board of Directors. A provision for credit losses of \$164,000 was expended in both 1998 and 1997. Net loan charge-offs (loans charged off, net of loans recovered) were \$24,749 in 1998. Net charge-offs were \$5,641 during 1997. The allowance for credit losses as a percent of total gross loans at year-end 1998 and 1997 was 1.47% and 1.67%, respectively. Monitoring of all credits enables management to analyze any inherent risks in the portfolio which may result from changes in economic

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

		1998		1997	
		% OF LOANS		% OF LOANS	
		IN EACH CATEGORY TO TOTAL LOANS		IN EACH CATEGORY TO TOTAL LOANS	
<S>	<C>	AMOUNT	LOANS	AMOUNT	LOANS
Commercial, Financial and Agricultural		\$537,238	50.23%	\$428,341	46.04%
Real Estate - Construction		192,001	17.95%	190,804	20.51%
Real Estate - Mortgage		260,665	24.37%	249,875	26.86%
Installment Loans to individuals		\$75,819	7.09%	\$59,295	6.37%
All Other Loans (Including overdrafts)		3,812	.36%	1,969	.22%
		-----	-----	-----	-----
		\$1,069,535	100.00%	\$930,284	100.00%
		-----	-----	-----	-----

</TABLE>

In evaluating the allowance for the credit losses, management takes into consideration the composition of its loan portfolio, loan growth during the period, risk and collectibility of loans, and economic conditions. The allowance is maintained at a sufficient level to cover all potential loan charge-offs in addition to a cumulative, annual amount based upon the factors outlined above. Management utilizes an internal loan classification system to grade portfolio loans as a part of its analysis of the adequacy of the allowance. In addition, management periodically reviews the condition of the loan portfolio including the value of security interests related to the portfolio loan to determine the adequacy of the allowance. The evaluation of the adequacy of the allowance is reviewed by management and reported on an ongoing basis to the Bank's Loan Committee, Audit Committee and Board of Directors.

Local Economy

The California economy is expected to continue to grow at a modest rate during 1999, with the local economy in the Bank's primary service area anticipated to show higher rates of growth than the state as a whole. During 1998, the bank expanded its market into the South San Luis Obispo County area through the operations of a new Loan Production Office. The bank also began plans to expand into Northern Santa Barbara County with a new full service branch office in Santa Maria which opened on February 1, 1999. Continued market expansion will take place with the opening of a new full service branch office located in the city of Atascadero, Ca. Scheduled opening is set for March 15, 1999.

Business and retail activity has increased throughout the Central Coast over the past two years. The economic outlook is for continues expansion in the economy for at least the next two to three years. Real estate prices have stabilized and began to show signs of increasing at a moderate rate. New home construction has shown strong increases. with interest rates at a record low level, home construction and mortgage organization should be strong sectors of the local economy for some time to come.

FINANCIAL CONDITION ANALYSIS

Total assets of the Company were \$131,033,498 at December 31, 1998 compared to \$93,319,422 in 1997.

A major portion of the Bank's loans are adjustable. Approximately 73% of the loans are adjustable. The majority of those loans that reprice are tied to changes in the prime rate. If interest rates change, the yield on these loans will also change. A 1.00% increase in the prime rate would increase net interest income approximately \$193,116 a year and a 1.00% decrease in the prime rate would decrease net interest income by \$142,464 a year.

The following table summarizes the composition of the loan portfolio as of December 31, 1998 and 1997.

COMPOSITION OF LOAN PORTFOLIO

LOAN CATEGORY	1998		1997	
	AMOUNT	PERCENT	AMOUNT	PERCENT
COMMERCIAL, FINANCIAL AND AGRICULTURAL	\$38,220,932	53.69%	\$24,830,234	44.84%
REAL ESTATE-CONSTRUCTION	8,357,701	11.74%	6,953,512	12.56%
REAL ESTATE-MORTGAGE	21,672,158	30.44%	19,143,755	34.57%
INSTALLMENT LOANS TO INDIVIDUALS	2,611,325	3.68%	4,296,204	7.76%
ALL OTHER (INCLUDING OVERDRAFTS)	323,493	0.45%	152,606	0.27%
TOTAL LOANS, GROSS	71,185,609	100.00%	55,376,311	100.00%
DEFERRED LOAN FEES	(313,032)		(243,893)	
RESERVE FOR POSSIBLE LOAN LOSSES	(1,069,535)		(930,284)	
TOTAL LOANS, NET	\$69,803,042		\$54,202,134	

</TABLE>

Net loans totaled \$69,803,042 at December 31, 1998, compared to \$54,202,134 at December 31, 1997. Loans increased during the year as the result of our downtown San Luis Obispo branch and moderate growth at the head office. The primary growth was approximately \$13,390,698 in commercial and agricultural loans.

The following are the approximate maturities and sensitivity to change in interest rates for the loans at December 31, 1998.

Loan Category	Due Within One Year	After One Year but Within Five	After Five Years	Totals
Commercial, Financial and Agricultural	\$ 9,536	\$ 9,741	\$ 18,944	\$ 38,221
Real Estate - Construction	6,423	348	1,587	8,358
Real Estate - Mortgage	2,434	5,335	13,903	21,672
Installment Loans to individuals	196	1,113	1,303	2,612
All Other loans (including overdrafts)	323	-	-	323
TOTALS	\$18,912	\$16,537	\$35,737	\$71,186

Predetermined rates	\$5,684	\$ 4,656	\$10,641	\$20,986
Floating or adjustable rates	13,323	11,880	25,096	50,199
TOTALS	\$ 18,912	\$ 16,537	\$35,737	\$ 71,186

</TABLE>

Risk Elements

Risk elements on loans are presented in the following table for December 31:

<TABLE> <CAPTION>	1998	1997
<S>	<C>	<C>
Nonaccrual Loans (impaired loans)	\$934,389	\$864,488
Accruing Loans Past Due 90 days	\$-0-	\$95,536
Restructured Loans	\$396,506	\$407,929
Interest Excluded on Nonaccrual Loans	\$103,164	\$94,762
Interest Recognized on Nonaccrual and Troubled Debt Restructured Loans	\$31,723	\$40,753

</TABLE>

At December 31, 1998, the Bank had no foreign loans outstanding. The Bank did not have any concentrations of loans except as disclosed above.

The Bank's management is responsible for monitoring loan performance which is done through various methods, including a review of loan delinquencies and personal knowledge of customers. Additionally, the Bank, maintains both a "watch" list of loans which, for a variety of reasons, management believes requires regular review as well as an internal loan classification process. Yearly, the loan portfolio is also reviewed by an experienced, outside loan reviewer not affiliated with the Bank. A list of delinquencies, the watch list, loan grades and the outside loan review are reviewed regularly by the Board of Directors. Except as set forth in the preceding table, there are no loans which management has serious doubts as to the borrower's ability to comply with present loan repayment terms.

The Bank has a nonaccrual policy which requires a loan greater than 90 days past due to be placed on nonaccrual status unless such loan is well-collateralized and in the process of collection. When loans are placed on nonaccrual status, all uncollected interest accrued is reversed from earnings. Once on nonaccrual status, interest on a loan is only recognized on a cash basis. Loans may be returned to accrual status if management believes that all remaining principal and interest is fully collectible and there has been at least six months of sustained repayment performance since the loan was placed on nonaccrual.

If a loan's credit quality deteriorates to the point that collection of principal is believed by management to be doubtful and the value of collateral securing the obligation is sufficient the Bank generally takes steps to protect and liquidate the collateral. Any loss resulting from the difference between the loan balance and the fair market value of the property is recognized by a charge to the reserve for loan losses. When the property is held for sale after foreclosure, it is subject to a periodic appraisal. If the appraisal indicates that the property will sell for less than its recorded value, the Bank recognizes the loss by a charge to non-interest expense.

Total Cash and Due from Banks

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Total cash and due from banks increased from \$12,491,388 at December 31, 1997 to \$17,239,179 at December 31, 1998. The large amount of cash and due from banks is to fund the operations of the Bank's two ATM networks. If the Bank were to sell these two networks, the amount of cash would then be invested in securities and loans.

Other earning assets are comprised of Federal Funds sold (funds lent on a short term basis to other banks), investment securities and short term

certificates of deposit at other financial institutions. These assets are maintained for short term liquidity needs of thnk, collateralization of public deposits, and diversification of the earning asset mix.

Other earning assets increased to \$36,988,232 at December 31, 1998 compared to \$21,003,929 at December 31, 1997. The increase in 1997 represents an increase in the overall size of the Bank and the investment of excess funds. Other earning assets represented 33.7% of the earning asset portfolio at December 31, 1998, compared to 27.3% in 1997. On December 31, 1998, one particular customer of the bank had an extraordinary deposit of approximately \$5 million. These excess funds remained on deposit for less than one week.

The following table summarizes the composition of other earning assets at December 31:

COMPOSITION OF OTHER EARNING ASSETS

<TABLE>
<CAPTION>

	1998		1997	
	AMOUNT	PERCENT	AMOUNT	PERCENT
<S>	<C>	<C>	<C>	<C>
HELD TO MATURITY INVESTMENTS	\$15,758,151	42.60%	\$11,590,592	55.19%
AVAILABLE FOR SALE INVESTMENTS	12,863,106	34.78%	8,303,218	39.53%
FEDERAL FUNDS SOLD	7,700,000	20.82%	500,000	2.38%
CERTIFICATE OF DEPOSITS	666,975	1.80%	610,119	2.90%
TOTAL OTHER EARNING ASSETS	\$36,988,232	100.00%	\$21,003,929	100.00%

</TABLE>

The Amortized cost, fair value, and maturities at December 31, 1998 are as follows:

<TABLE>
<CAPTION>

	Securities Available For Sale		Securities Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<S>	<C>	<C>	<C>	<C>
DUE IN ONE YEAR OR LESS	\$7,973,633	\$ 7,973,633	\$ 279,194	\$ 279,191
DUE AFTER ONE YEAR THROUGH FIVE YEARS	0	0	1,343,142	1,352,728
DUE AFTER FIVE YEARS THROUGH TEN YEARS	0	0	1,921,440	1,936,737
DUE AFTER TEN YEARS	1,650,875	1,814,420	4,045,680	4,051,411
MORTGAGE-BACKED SECURITIES	3,286,605	3,075,053	8,168,695	8,438,940
TOTAL	\$12,911,113	\$12,863,106	\$15,758,151	\$16,059,007

</TABLE>

Deposits

Total deposits increased to \$119,407,706 at December 31, 1998. Total deposits at December 31, 1997 were \$83,549,657. As is indicated elsewhere in this document, one particular customer had an extraordinary deposit on December 31, 1998 in the approximate amount of \$5 million. These funds remained on deposit for less than one week.

The following table sets forth information for the last two fiscal years

regarding the composition of deposits at December 31, and the average rates paid on each of these categories.

COMPOSITION OF DEPOSITS

<TABLE>

<CAPTION>

	1998		1997	
DEPOSIT TYPE	BALANCE	AVERAGE RATE PAID	BALANCE	AVERAGE RATE PAID
<S>	<C>	<C>	<C>	<C>
NON-INTEREST BEARING DEMAND	\$38,672,576	0.00%	\$18,407,169	0.00%
INTEREST BEARING DEMAND	34,601,620	2.19%	30,047,646	2.27%
SAVINGS	11,592,945	2.40%	10,766,665	2.51%
MONEY MARKET	5,410,316	3.21%	5,819,526	3.84%
TIME DEPOSITS	29,130,249	5.16%	18,508,651	4.99%
TOTAL DEPOSITS	\$119,407,706	2.56%	\$83,549,657	2.71%

</TABLE>

Set forth below is a maturity schedule of domestic time certificates of deposits of \$100,000 and over at December 31, 1998.

<TABLE>

<CAPTION>

TIME DEPOSITS \$100,000 AND OVER:

(Dollars in thousands)	
<S>	<C>
Less than 3 months	\$2,300
3-12 months	1,616
Over 1 year	757
TOTAL	\$4,673

</TABLE>

Capital

The Company's total stockholders equity was \$9,436,670 as of December 31, 1998 compared to \$8,127,078 as of December 31, 1997. The increase in capital during 1998 was due to net income of \$1,346,595, a cash dividend of \$0.50 per share (\$519,850) paid on February 27, 1998, stock options exercised in the amount of \$289,684 and an increase in the valuation allowance for investments of \$193,163. The valuation allowance was a result of the company's adoption of SFAS No. 115 "Accounting for Certain Investment in Debt and Equity Securities."

Capital ratios for commercial banks in the United States are generally calculated using 3 different formulas. These calculations are referred to as the "Leverage Ratio" and two "risk based" calculations known as: "Tier One Risk Based Capital Ratio" and the "Total Risk Based Capital Ratio." These standards were developed through joint efforts of banking authorities from 12 different countries around the world. The standards essentially take into account the fact that different types of assets have different levels of risk associated with them. Furthermore, they take into account the off-balance sheet exposures of banks when assessing capital adequacy.

The Leverage Ratio calculation simply divides common stockholders' equity (reduced by any Goodwill a bank may have) by the total assets of the bank. In the Tier One Risk Based Capital Ratio, the numerator is the same as the leverage ratio, but the denominator is the total "risk-weighted assets" of the bank. Risk weighted assets are determined by segregating all the assets and off balance sheet exposures into different risk categories and weighting them by a percentage ranging from 0% (lowest risk)

to 100% (highest risk). The Total Risk Based Capital Ratio again uses "risk-weighted assets" in the denominator, but expands the numerator to include other capital items besides equity such as a limited amount of the loan loss reserve, long-term capital debt, preferred stock and other instruments. Summarized below are the Bank's capital ratios at December 31, 1998.

<TABLE>
<CAPTION>

<S>	Minimum Regulatory Capital Requirements <C>	Heritage Oaks Bank <C>
Leverage Ratio	4.00%	7.55%
Tier One Risk Based Capital Ratio	4.00%	9.69%
Total Risk Based Capital Ratio	8.00%	10.81%

</TABLE>

Generally speaking, the primary source of new capital will be generated from retained earnings. However, to provide for instances when retained earnings may not keep pace with asset growth, additional sources of capital need to be made available. To that end, on September 11, 1998, Heritage Oaks Bancorp executed a Promissory Note for a \$2 million line of credit with Pacific Coast Bankers' Bank. The characteristics of the note are as follows:

- Collateralized with 339,332 shares of Heritage Oaks Bank common stock
- Maturity of August 15, 2004.
- Interest only for first year of quarterly payments
- Subsequent payments to be fully amortized to maturity based on outstanding balance owed.

On September 28, 1998, October 30, 1998 and December 30, 1998, the Bancorp drew on the line for \$200,000, \$200,000 and \$350,000, respectively. On September 29, 1998, October 30, 1998, December 30, 1998 and December 31, 1998, Bancorp invested \$150,000, \$200,000, \$300,000 and \$50,000, respectively, in Heritage Oaks Bank as paid in Capital, Surplus.

In addition to this and pursuant to the Capital Plan, the Board of Directors are reviewing other sources of capital for the bank.

Liquidity

The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors, investors and borrowers. Asset liquidity is primarily derived from loan payments and the maturity of other earning assets. Liquidity from liabilities is obtained primarily from the receipt of new deposits. The Bank's Asset Liability Committee (ALCO) is responsible for managing the on-and off-balance sheet commitments to meet the needs of customers while achieving the Bank's financial objectives. ALCO meets regularly to assess the projected funding requirements by reviewing historical funding patterns, current and forecasted economic conditions and individual customer funding needs. Deposits generated from Bank customers serve as the primary source of liquidity. The Bank has credit arrangements with correspondent banks which serve as a secondary liquidity source in the amount of \$3,500,000. The Bank has also established two borrowing lines with brokers whereby the Bank can pledge investment securities as collateral for short term borrowings.

The Bank manages its liquidity by maintaining a majority of its investment portfolio in federal funds sold and other liquid investments. At December 31, 1998, the ratio of liquid assets not pledged for collateral and other purposes to deposits and other liabilities were 26.3% compared to 28.7% in 1997. At December 31, 1998 and December 31, 1997, there were no assets pledged as collateral on borrowings. The ratio of gross loans to deposits, another key liquidity ratio, was 59.6% at year end 1998 compared to 66.6% at December 31, 1997.

Inflation

The assets and liabilities of a financial institution are primarily monetary in nature. As such they represent obligations to pay or receive fixed and determinable amounts of money which are not affected by future changes in prices. Generally, the impact of inflation on a financial institution is reflected by fluctuations in interest rates, the ability of customers to repay debt and upward pressure on operating expenses. The effect on inflation during the three-year period ended December 31, 1998 has not been significant to the Bank's financial position or results of operations.

Year 2000 Risks and Preparedness

Many existing computer programs use only two digits to identify a year in a data field. These programs were designed and developed without considering the impact of the upcoming change in the century. If not

corrected, many computer applications could fail or create erroneous results by or at the

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Year 2000 or possibly earlier. The Year 2000 issue affects the Company in that the financial services business is highly dependent on computer applications in a variety of ways, including the following (i) the Company relies on computer systems in almost all aspects of its business, including the processing of deposits, loans and other services and products offered to customers, the failure of which in connection with the Year 2000 could cause systemic disruptions and failures in the products and services offered by the Company, (ii) other banks, clearing houses and vendors whose products and services the Company uses are at risk of systemic disruptions and potential failures in the event that such entities have not adequately addressed their Year 2000 issue~ prior to the Year 2000, (iii) the creditworthiness of borrowers of the Company might be diminished by significant disruptions of their business as a result of their own or others failure to address adequately the Year 2000 issues prior to the Year 2000, and (iv) federal balancing agencies have issued interagency guidance on the business-wide risk posed to financial institutions by the year 2000 problem pursuant to which the federal banking agencies may take supervisory action against financial institutions that fail to address appropriately Year 2000 issues prior to the Year 2000, including formal and informal enforcement actions, denial of applications to the federal banking agencies, civil money penalties and a reduction in the management component rating of the institution's composite rating.

In order to address the Year 2000 issues facing the Company, the Company's Management has initiated a program to prepare the Company's computer systems and applications for the Year 2000 (the "Year 2000 Plan"). The primary focus of the Year 2000 Plan is to convert to the target systems identified and believed to be Year 2000 compliant. The Company expects to incur internal staff costs as well as consulting and other expenses related to infrastructure and facilities enhancements necessary to prepare for conversion and Year 2000 system preparations, testing and conversion of primary system applications and hardware is expected to cost approximately \$191,000 to be expended during fiscal years 1998 and 1999.

As a part of the Year 2000 Plan, the Company is not only undertaking the infrastructure and facilities enhancement and testing necessary to ensure that the Company is adequately prepared for the Year 2000, but the Company is also communicating with its vendors upon whose services the Company relies to ensure Year 2000 compliance. Pursuant to the Year 2000 Plan, the Company substantially completed testing of its mission-critical systems and the computer-related interactive vendor Systems by December 31, 1998 and expects to complete all testing by June 1999. In addition, as part of the credit review process, the Company is communicating with its major borrowers in an effort to ensure that such borrowers have taken appropriate steps to address their Year 2000 issues and will not be materially affected by any Year 2000 problems. The Company is communicating with its deposit customers as well. The Company is also preparing contingency plans to protect the Company in the event that the Company is unable to attain Year 2000 compliance in certain applications according to the Year 2000 Plan.

The Company has established a working committee comprised of Senior and Middle Management to plan for and monitor the Company's compliance with Year 2000 issues. This committee has developed a comprehensive policy setting forth priorities and a timetable for the Bank to follow in this process.

The Company has developed a contingency plan that identifies the mission critical processes and service providers. An alternative provider or process has been identified for each mission critical vendor. In addition, on the assumption that the original or alternative process fails at the point of processing in the Year 2000, contingency plans are being designed that will provide minimum levels of

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service or outputs until the failed system can be repaired or replaced. Most of these contingency plans are manual effort systems. Test results to-date indicate that the original system for each mission critical system should meet the demands of processing in the Year 2000. As a reasonable worst case, the manual systems designed should provide the minimum levels of service for the time required to repair or replace failed systems. However, in the case of failure, the ultimate impact on financial operations is not known, nor is it known what impact a regional or nationwide power failure or communications breakdown would have on the financial performance of the Company.

The Company has created a budget specific to Year 2000 readiness. The

budget is comprised of the following components: (1) Consulting assistance for testing, (2) Auditing, and (3) Operating system and network upgrades. This component is budgeted at \$191,000. As of December 31, 1998, \$71,104 or 37% has been spent. Senior Management reviews the budget from time to time as the Year 2000 Plan is implemented. There is no assurance that additional amounts will not be added to the amounts already budgeted for Year 2000 expenditures. With respect components number (1) and (2), it should be noted that Heritage Oaks Bank has the resources in-house to audit review of the effectiveness of the Year 2000 Plan and the technological assistance necessary in preparing for and conducting the Company's testing plan.

In addition, the Company has dedicated significant human resources to the Year 2000 Plan. This includes the salaries and benefits of personnel devoting significant time to the plan. As of December 31, 1998 the Company had expended over \$ \$16,000 in "man-hours" to the project, equivalent to 16 work weeks. In addition, expenditures have been made in the areas of advertising and public relations, customer and employee awareness programs and more.

In April of 1998, the Company initiated a credit risk assessment program, with loan officers completing a Year 2000 questionnaire for all new and renewed credits in amounts over \$150,000.00. These questionnaires were designed to provide the Company's management with information by which it could evaluate the borrower's awareness of and sensitivity to Year 2000 risk. Questionnaires are reviewed and discussed at weekly Officer Loan Committee meetings and are further reviewed by Credit Administration and Senior Lender to ascertain Year 2000 risk associated with the credit. As a result of this review, \$89,410 has been allocated to the Company's loan loss provision. In addition, legal ~ Year 2000 issues are included in significant commitment letters and loan documentation for certain borrowers. Finally, on loan participation's purchased, the Company requires assurances from the lead lender that it has obtained a Year 2000 questionnaire from the borrower and also that the lead lender is satisfactorily progressing toward Year 2000 compliance.

Although the Company believes that its Year 2000 Plan and other steps being taken are adequate to ensure that it will not be materially affected by the Year 2000 problem, there can be no assurance that the Year 2000 Plan and the Company's other Year 2000 remedial and contingency plans will fully protect the Company from the risks associated with the Year 2000. The analysis of, and preparation for, the Year 2000 and related problems necessarily rely on a variety of assumptions about future events and there can be no assurance that the Company's Management has accurately predicted such future events or that the remedial and contingency plans of the Company will adequately address such future events. In the event that the business of the Company, of vendors of the Company or of customers of the Company is disrupted as a result of the Year 2000 problem, such disruption could have a material adverse effect on the Company.

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ITEM 7. FINANCIAL STATEMENTS

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HERITAGE OAKS BANCORP

FINANCIAL STATEMENTS

DECEMBER 31, 1998, 1997 AND 1996

with

INDEPENDENT AUDITORS' REPORT

HERITAGE OAKS BANCORP AND SUBSIDIARIES

DECEMBER 31, 1998, 1997 AND 1996

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Heritage Oaks Bancorp and Subsidiaries
Paso Robles, California

We have audited the accompanying consolidated balance sheets of Heritage Oaks Bancorp and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income and changes in stockholders' equity and statements of cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heritage Oaks Bancorp as of December 31, 1998 and 1997, the results of their operations and changes in their stockholders' equity and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Rancho Cucamonga, California
February 5, 1999

HERITAGE OAKS BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

<TABLE>
<CAPTION>

ASSETS

INTEREST EXPENSE			
Interest on savings, NOW and money market deposits	1,142,163	1,049,847	703,580
Interest on time deposits in denominations of \$100,000 or more	204,986	112,009	110,221
Interest on time deposits under \$100,000	1,133,271	993,941	1,138,282
Other	63,880	56,453	29,795
Total Interest Expense	2,544,300	2,212,250	1,981,878
Net interest income before provision for possible loan losses	5,446,365	4,473,003	3,609,586
Provision for Possible Loan Losses	164,000	164,000	90,000
	5,282,365	4,309,003	3,519,586
NON-INTEREST INCOME			
Service charges on deposit accounts	690,710	559,874	373,022
Insurance and brokerage commission fees	20,931	11,780	14,693
Investment securities gain/(loss), net	10,504	(16,719)	
Other	5,638,658	4,411,247	2,501,108
Total Non-interest Income	6,360,803	4,966,182	2,888,823
NON-INTEREST EXPENSES			
Salaries and employee benefits	2,892,921	2,402,600	1,873,389
Equipment expenses	382,316	275,745	252,013
Occupancy expenses	540,891	506,472	518,270
Other expenses (Note #13)	5,752,419	4,047,572	2,297,563
Total Non-interest Expenses	9,568,547	7,232,389	4,941,235
Income Before Provision for Income Taxes	2,074,621	2,042,796	1,467,174
Provision for Income Taxes (Notes #1I and #8)	728,026	781,732	553,343
Net Income	\$ 1,346,595	\$ 1,261,064	\$ 913,831
Earnings Per Share (Notes #1L and #17)			
Basic	\$ 1.24	\$ 1.18	\$ 0.88
Diluted	\$ 1.13	\$ 1.11	\$ 0.84

</TABLE>

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Number of Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, January 1, 1996	665,655	\$4,033,809	\$2,705,175	\$ (513,521)	\$6,225,463
Exercise of stock options	9,641	55,436			55,436
Cash dividends paid - \$.32 per share			(213,011)		(213,011)
Comprehensive income					
Net income			913,831		913,831
Unrealized security holding gains (net of \$50,998 tax)				71,429	71,429
Comprehensive income					985,260
BALANCE, December 31, 1996	675,296	4,089,245	3,405,995	(442,092)	7,053,148
Exercise of stock options	15,868	91,241			91,241
Cash dividends paid - \$.33 per share			(337,787)		(337,787)
Three-for-two stock split	345,462				
Cash paid to stockholders in lieu of fractional shares on three-for-two stock split			(1,351)		(1,351)

Comprehensive income					
Net income			1,261,064		1,261,064
Unrealized security holding gains (net of \$37,563 tax)				49,896	49,896
less reclassification adjustments for losses (net of \$5,852 tax)				10,867	10,867
Total other comprehensive income					60,763
Comprehensive income					1,321,827
	-----	-----	-----	-----	-----
BALANCE, December 31, 1997	1,036,626	4,180,486	4,327,921	(381,329)	8,127,078
Exercise of stock options	33,165	289,684			289,684
Cash dividends paid - \$.50 per share			(519,850)		(519,850)
Comprehensive income					
Net income			1,346,595		1,346,595
Unrealized security holding gains (net of \$141,588)				199,991	199,991
less reclassification adjustments for losses (net of \$3,676 tax)				(6,828)	(6,828)
Total other comprehensive income					193,163
Comprehensive income					1,539,758
	-----	-----	-----	-----	-----
BALANCE, December 31, 1998	1,069,791	\$ 4,470,170	\$ 5,154,666	\$ (188,166)	\$ 9,436,670
	-----	-----	-----	-----	-----

</TABLE>

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

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
	<C>	<C>	<C>
<S>			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,346,595	\$ 1,261,064	\$ 913,831
Adjustments to reconcile net income to net cash provided by operating activities			
Net cash provided by operating activities			
Depreciation and amortization	427,759	351,303	262,424
Provision for possible loan losses	164,000	164,000	90,000
Provision for possible OREO losses	7,369		
Net (gain)/loss on sales of investment securities	(10,504)	16,719	
Amortization of premiums/discounts on investment securities, net	(161,672)	(74,194)	(63,468)
Increase in deferred tax asset	(135,000)		
Increase in other assets	3,359	(145,068)	(358,556)
Increase/(decrease) in other liabilities	(68,565)	257,944	(6,496)
	-----	-----	-----
Net cash provided by operating activities	1,573,341	1,831,768	837,735
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities held-to-maturity	(3,607,551)	(3,976,013)	(2,856,218)
Purchase of mortgage-backed securities held-to-maturity	(6,143,140)	(2,080,158)	
Purchase of securities available-for-sale	(10,098,137)	(1,500,000)	(500,000)
Purchase of mortgage-backed securities available-for-sale	(696,825)	(3,355,847)	
Proceeds from sales of securities held-to-maturity		1,250,000	
Proceeds from principal reductions and maturities of securities held-to-maturity	2,379,076	2,125,000	3,890,000
Proceeds from principal reductions and maturities of mortgage-backed securities held-to-maturity	3,013,646	534,864	297,079
Proceeds from sales of securities available-for-sale	4,431,186	3,483,281	
Proceeds from principal reductions and maturities of securities available-for-sale			500,000
Proceeds from sales of mortgage-backed securities available-for-sale	733,835		
Proceeds from principal reductions and maturities of mortgage-backed securities available-for-sale	1,763,715	184,441	
Purchase of deposits with other banks	(56,856)	(510,119)	
Purchase of life insurance policies	(50,258)	(240,398)	(37,496)
Proceeds from sale of other real estate owned	54,631		
Recoveries on loans previously written off	48,467	43,208	22,793

Increase in loans, net	(16,972,789)	(5,386,839)	(9,773,000)
Purchase of property, premises and equipment, net	(802,433)	(667,915)	(352,280)
Net Cash Used In Investing Activities	(26,003,433)	(10,096,495)	(8,809,122)

</TABLE>

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

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in deposits, net	\$35,858,049	\$ 11,558,359	\$ 7,277,201
Net increase/(decrease) in other borrowings		(4,730,000)	4,730,000
Net increase in notes payable	750,000		
Proceeds from exercise of stock options	289,684	91,241	55,436
Cash dividends paid or declared	(519,850)	(339,138)	(213,011)
Net Cash Provided By Financing Activities	36,377,883	6,580,462	11,849,626
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	11,947,791	(1,684,265)	3,878,239
CASH AND CASH EQUIVALENTS, Beginning of year	12,991,388	14,675,653	10,797,414
CASH AND CASH EQUIVALENTS, End of year	\$ 24,939,179	\$ 12,991,388	\$ 14,675,653
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	\$ 2,383,618	\$ 2,445,815	\$ 2,120,014
Income taxes paid	\$ 976,129	\$ 847,000	\$ 537,000
SUPPLEMENTAL DISCLOSURES OF NON-CASH FLOW INFORMATION			
Change in other comprehensive income	\$ 193,163	\$ 60,763	\$ 71,429
Transfer of loan to other real estate owned through foreclosure	-	\$ 62,000	-

</TABLE>

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

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Heritage Oaks Bancorp (the Company) and Subsidiaries conform to generally accepted accounting principles and to general practices within the banking industry. A summary of the Company's significant accounting and reporting policies consistently applied in the preparation of the accompanying financial statements follows:

A. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the Company and its wholly owned subsidiaries, Heritage Oaks Bank and CCMS Systems, Inc. Intercompany balances and transactions have been eliminated.

B. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those

estimates.

Estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for losses on loans and foreclosed real estate may change.

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. INVESTMENT SECURITIES AND MORTGAGE-BACKED SECURITIES

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which addresses the accounting for investments in equity securities that have readily determinable fair values and for investments in all debt securities. Securities and mortgage-backed securities are classified in three categories and accounted for as follows: debt, equity, and mortgage-backed securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are measured at amortized cost; debt and equity securities bought and held principally for the purpose of selling in the near term are classified as trading securities and are measured at fair value, with unrealized gains and losses included in earnings; debt and equity securities not classified as either held-to-maturity or trading securities are deemed as available-for-sale and are measured at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity. Gains or losses on sales of investment securities and mortgage-backed securities are determined on the specific identification method. Premiums and discounts are amortized or accreted using the interest method over the expected lives of the related securities.

D. LOANS AND INTEREST ON LOANS

Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees and unearned discounts. The Bank recognizes loan origination fees to the extent they represent reimbursement for initial direct costs, as income at the time of loan boarding. The excess of fees over costs, if any, is deferred and credited to income over the term of the loan.

In accordance with SFAS No. 114, (as amended by SFAS No. 118), "Accounting by Creditors for Impairment of a Loan," those loans identified as "impaired" are measured on the present value of expected future cash flows, discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. A loan is impaired when it is probable the creditor will not be able to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement.

Loans are placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance.

All loans on nonaccrual are measured for impairment. The Bank applies the measurement provision of SFAS No. 114 to all loans in its portfolio. All loans are generally charged off at such time the loan is classified

HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. LOANS HELD FOR SALE

Loans held for sale are carried at the lower of aggregate cost or market value, which is determined by the specified value in the commitments. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

F. RESERVE FOR PROBABLE LOAN LOSSES

The reserve for probable loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the reserve is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Reserves for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The reserve is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the reserve relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related reserve may change.

G. PROPERTY, PREMISES AND EQUIPMENT

Property, premises and equipment are stated at cost, less accumulated depreciation and amortization. Equipment under capital leases is carried at the present value of future minimum lease payments less accumulated amortization over the term of the lease. Depreciation is computed on a straight-line basis over the estimated useful lives of each asset type. Total depreciation expense for the reporting periods ending December 31, 1998, 1997 and 1996 were approximately \$428,000, \$351,000, and \$262,000, respectively.

H. OTHER REAL ESTATE OWNED

Other real estate owned, which represents real estate acquired through foreclosure, is stated at the lower of the carrying value of the loan or the estimated fair market value less estimated selling costs of the related real estate. Loan balances in excess of the fair market value of the real estate acquired at the date of acquisition are charged against the allowance for loan losses. Any subsequent declines in estimated fair value, operation income, and gains or losses on disposition of such properties are expensed or charged to current operations.

I. INCOME TAXES

Provisions for income taxes are based on amounts reported in the statements of income (after exclusion of non-taxable income such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Deferred taxes are computed on the liability method as prescribed in SFAS No. 109, "Accounting for Income Taxes."

HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

J. CONSOLIDATED STATEMENTS OF CASH FLOWS

The Company presents its cash flows using the indirect method and reports certain cash receipts and payments arising from customer loans, deposits and deposits placed with other financial institutions on a net basis. For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash and due from banks, cash items in transit, and Federal funds sold balances as of the year end.

K. RECLASSIFICATIONS

Certain amounts in the 1997 and 1996 financial statements have been reclassified to conform to the 1998 presentation.

L. EARNINGS PER SHARE (EPS)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

M. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, supercedes FASB No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments." FASB No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognizes all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. Management has not determined the potential impact of this statement will have on the financial statements, however believes there will be no material effect on the Bank's financial condition or results of operations.

HERITAGE OAKS BANCORP AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996

NOTE #2 - INVESTMENT SECURITIES

At December 31, 1998, the investment securities portfolio was comprised of securities classified as available-for-sale and held-to-maturity, in accordance with SFAS No. 115, resulting in investment securities available-for-sale being carried at fair value and investment securities held-to-maturity being carried at cost, adjusted for amortization of premiums and accretions of discounts, and fair market value adjustments for securities transferred from available-for-sale.

The amortized cost and fair values of investment securities available-for-sale at December 31, 1998, were:

<TABLE>
 <CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
Obligations of U.S. Government agencies and corporations	\$ 1,650,875	\$ 163,545		\$ 1,814,420
Mortgage-backed securities	3,286,605	2,903	\$ 214,455	3,075,053
Commercial paper	7,969,833			7,969,833
Other securities	3,800			3,800
Total	\$12,911,113	\$ 166,448	\$ 214,455	\$12,863,106

</TABLE>

Available-for-sale securities in the amount of \$2,089,375 were transferred to

held-to-maturity during 1994. The unrealized loss of \$330,165 net of tax of \$137,098 was reflected in a separate component of stockholders' equity and is being amortized over the remaining life of the securities as a yield adjustment. At December 31, 1998, the remaining unrealized loss of \$274,474 net of tax of \$114,334 is included in the valuation allowance.

The amortized cost and fair values of investment securities held-to-maturity at December 31, 1998, were:

<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
U.S. Treasury securities	\$ 98,777		\$ 777	\$ 98,000
Obligations of U.S. government agencies and corporations	1,235,905	\$ 25,798	132	1,261,571
Mortgage-backed securities	8,168,695	283,004	12,759	8,438,940
Obligations of state and political subdivisions	6,254,774	14,059	8,337	6,260,496
Total	\$15,758,151	\$ 322,861	\$ 22,005	\$16,059,007

</TABLE>
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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #2 - INVESTMENT SECURITIES, (CONTINUED)

The amortized cost and fair values of investment securities available-for-sale at December 31, 1997, were:

<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
U.S. Treasury securities	\$1,000,269		\$ (6,519)	\$ 993,750
Obligations of U.S. Government agencies and corporations	2,500,000	\$ 3,888	(11,573)	2,492,315
Mortgage-backed securities	5,167,677	3,442	(355,966)	4,815,153
Other securities	2,000			2,000
Total	\$8,669,946	\$ 7,330	\$ (374,058)	\$8,303,218

</TABLE>

The amortized cost and fair values of investment securities held-to-maturity at December 31, 1997, were:

<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
U.S. Treasury securities	\$ 99,209		\$ (209)	\$ 99,000

Obligations of U.S. government agencies and corporations	3,051,500	\$ 236,577	(8,273)	3,279,804
Mortgage-backed securities	4,980,125	16,086	(3,182)	4,993,029
Obligations of state and political subdivisions	3,459,758	10,898	(3,328)	3,467,328
	-----	-----	-----	-----
Total	\$11,590,592	\$ 263,561	\$ (14,992)	\$11,839,161

</TABLE>

The amortized cost and fair values of investment securities available-for-sale and held-to-maturity at December 31, 1998, by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<S>	<C>	<C>	<C>	<C>
Due in one year or less	\$ 7,973,633	\$ 7,973,633	\$ 279,194	\$ 279,191
Due after one year through five years			1,343,142	1,352,728
Due after five years through ten years			1,921,440	1,936,737
Due after ten years	1,650,875	1,814,420	4,045,680	4,051,411
Mortgage-backed securities	3,286,605	3,075,053	8,168,695	8,438,940
	-----	-----	-----	-----
Total Securities	\$12,911,113	\$12,863,106	\$15,758,151	\$16,059,007
	-----	-----	-----	-----

</TABLE>

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #2 - INVESTMENT SECURITIES, (CONTINUED)

Proceeds from sales and maturities of investment securities available-for-sale during 1998, 1997 and 1996, were \$4,431,186, \$3,483,281, and \$500,000, respectively. In 1998, gross losses and gross gains on these sales were \$9,970; and \$13,365, respectively. In 1997, gross losses on these sales were \$16,719; there were no gross gains. There were no gross gains or losses in 1996.

Proceeds from maturities and sales of investment securities held-to-maturity during 1998, 1997 and 1996, were \$2,379,076, \$3,375,000, and \$3,890,000, respectively. There were no gains or losses on those sales and maturities in 1998, 1997 and 1996. Proceeds from sales and maturities of mortgage-backed securities in 1998, 1997 and 1996, were \$5,511,196, \$719,305, and \$297,079, respectively. Gross gains on these sales during 1998 were \$7,041. There were no gross gains or losses on these sales during 1997 and 1996. Unrealized losses on investment securities and mortgage-backed securities included in shareholders' equity net of tax at December 31, 1998, 1997 and 1996 were \$188,166, \$381,329, and \$442,092, respectively. Securities having a carrying value of approximately \$2,249,000 and \$5,013,000 and a fair value of approximately \$2,261,000 and \$4,890,000 at December 31, 1998 and 1997, respectively, were pledged to secure public deposits and for other purposes as required by law.

NOTE #3 - DERIVATIVE FINANCIAL INSTRUMENTS

The Financial Accounting Standards Board Statement No. 119 defines a derivative as a future, forward, swap, option contract or other financial instrument with similar characteristics. The Bank has not utilized derivatives or related types of financial instruments except for Federal agency collateralized mortgage obligations and, therefore, this statement does not have a material impact.

NOTE #4 - LOANS

Major classifications of loans were:

<TABLE>

<CAPTION>

	1998	1997
	-----	-----
<S>	<C>	<C>
Commercial, financial and agricultural	\$ 38,220,932	\$ 24,830,234
Real Estate - construction	8,357,701	6,953,512
Real Estate - mortgage	21,672,158	19,143,755
Installment loans to individuals	2,611,325	4,296,204
All other loans (including overdrafts)	323,493	152,606
	-----	-----
	71,185,609	55,376,311
Less: Deferred loan fees	(313,033)	(243,893)
Less: Reserve for possible loan losses	(1,069,535)	(930,284)
	-----	-----
Total Loans	\$ 69,803,041	\$ 54,202,134
	-----	-----
Loans held for sale	\$ 1,654,765	\$ 495,350
	-----	-----

</TABLE>

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #4 - LOANS, (CONTINUED)

CONCENTRATION OF CREDIT RISK

At December 31, 1998, approximately \$30,030,000 of the Bank's loan portfolio was collateralized by various forms of real estate. Such loans are generally made to borrowers located in San Luis Obispo County. The Bank attempts to reduce its concentration of credit risk by making loans which are diversified by project type. While management believes that the collateral presently securing this portfolio is adequate, there can be no assurances that significant deterioration in the California real estate market would not expose the Bank to significantly greater credit risk.

The following is a summary of the investment in impaired loans, the related allowance for loan losses, and income recognized thereon as of December 31:

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Recorded investment in impaired loans	\$ 996,476	\$1,015,207	\$964,009
Related allowance for loan losses	117,199	133,930	193,109
Average recorded investment in impaired loans	1,028,128	955,187	812,252
Interest income recognized for cash payments	20,226		
Cash receipts applied to reduce principal balance	5,023		

</TABLE>

The provisions of SFAS No. 114 and SFAS No. 118 permit the valuation allowance reported above to be determined on a loan-by-loan basis or by aggregating loans with similar risk characteristics. Because the loans currently identified as impaired have unique risk characteristics, the valuation allowance was determined on a loan-by-loan basis.

Nonaccruing loans totaled \$934,389 and \$864,488 at December 31, 1998 and 1997, respectively. As of December 31, 1998 and 1997, all loans on nonaccrual were

classified as impaired. If interest on nonaccrual loans had been recognized at the original interest rates, interest income would have increased \$103,164, \$94,762, and \$97,382 in 1998, 1997 and 1996, respectively.

At December 31, 1998 and 1997, the Bank had \$0 and \$95,536, respectively, in loans past due 90 days or more in interest or principal and still accruing interest. These loans are well secured and in the process of collection, or are secured by 1-4 single-family residences.

At December 31, 1998, loans totaling \$396,506 were classified as troubled debt restructurings.

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996

NOTE #5 - RESERVE FOR PROBABLE LOAN LOSSES

Transactions in the reserve for probable loan losses are summarized as follows:

<TABLE>
 <CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Balance, Beginning of year	\$ 930,284	\$ 771,925	\$ 766,262
Additions charged to operating expense	164,000	164,000	90,000
Loans charged off	(45,277)	(48,849)	(107,130)
Recoveries of loans previously charged off	20,528	43,208	22,793
	-----	-----	-----
Balance, End of year	\$ 1,069,535	\$ 930,284	\$ 771,925
	-----	-----	-----

</TABLE>

NOTE #6 - RELATED PARTY TRANSACTIONS

The Bank has entered into loan and deposit transactions with certain directors and executive officers of the Company. These loans were made and deposits were taken in the ordinary course of the Bank's business and, in management's opinion, were made at prevailing rates and terms.

An analysis of loans to directors and executive officers is as follows:

<TABLE>
 <CAPTION>

	1998	1997
	-----	-----
<S>	<C>	<C>
Outstanding Balance, Beginning of year	\$ 322,130	\$ 285,011
Additional loans made	548,264	115,344
Repayments	(148,785)	(78,225)
Loans sold	(22,877)	
	-----	-----
Outstanding Balance, End of year	\$ 698,732	\$ 322,130
	-----	-----

</TABLE>

NOTE #7 - PROPERTY, PREMISES AND EQUIPMENT

Property, premises and equipment consisted of the following:

<TABLE>
 <CAPTION>

	----- <C>	----- <C>
<S>		
Land	\$ 671,070	\$ 400,000
Building and improvements	2,294,000	2,222,997
Furniture and equipment	2,755,760	2,431,063
Construction in Progress	135,663	
	-----	-----
	5,856,493	5,054,060
Less: Accumulated depreciation and amortization	3,409,108	2,981,349
	-----	-----
Total	\$2,447,385	\$2,072,711
	-----	-----

</TABLE>

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #8 - INCOME TAXES

The current and deferred amounts of the provision (benefit) for income taxes were:

<TABLE>
<CAPTION>

	Year Ending December 31,		
	1998	1997	1996
	----- <C>	----- <C>	----- <C>
<S>			
Federal Income Tax			
Current	\$ 474,820	\$ 551,554	\$ 396,443
Deferred	2,557	(3,143)	(9,105)
	-----	-----	-----
Total Federal Taxes	477,377	548,411	387,338
	-----	-----	-----
State Franchise Tax			
Current	250,293	236,760	166,433
Deferred	356	(3,439)	(428)
	-----	-----	-----
Total State Franchise Tax	250,649	233,321	166,005
	-----	-----	-----
Total Income Taxes	\$ 728,026	\$ 781,732	\$ 553,343
	-----	-----	-----

</TABLE>

The principal items giving rise to deferred taxes were:

<TABLE>
<CAPTION>

	1998	1997	1996
	----- <C>	----- <C>	----- <C>
<S>			
Use of different depreciation for tax purposes	\$ 29,374	\$ 15,100	\$ 2,300
Difference in loan loss provision for tax purposes	59,991	32,781	37,400
Differences arising from changes in accruals	51,762	(35,621)	(62,400)
Other, net	(138,214)	(18,802)	13,167
	-----	-----	-----
Total	\$ 2,913	\$ (6,542)	\$ (9,533)
	-----	-----	-----

</TABLE>

The provision for taxes on income differed from the amounts computed using the

federal statutory tax rate of 34 percent is as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Tax provision at federal statutory tax rate	\$705,371	\$694,551	\$498,839
State income taxes, net of federal income tax benefit	148,335	146,060	109,563
Other, net	(125,680)	(58,879)	(55,059)
	-----	-----	-----
Total Tax Provision	\$728,026	\$781,732	\$553,343
	-----	-----	-----

</TABLE>

The net deferred tax asset is determined as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Deferred tax assets arising from cumulative timing differences	\$766,699	\$669,612	\$676,154
Valuation allowance*	(203,000)	(103,000)	(103,000)
	-----	-----	-----
Net Deferred Tax Asset	\$563,699	\$566,612	\$573,154
	-----	-----	-----

</TABLE>

*The valuation allowance is estimated based upon amounts less than likely of future realization.

NOTE #9 - COMMITMENTS AND CONTINGENCIES

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

The Company leases land, buildings, and equipment under noncancelable operating leases expiring at various dates through 2009. The following is a schedule of future minimum lease payments based upon obligations at year-end.

<TABLE>
<CAPTION>

Year Ending December 31,	Amount
-----	-----
<S>	<C>
1999	\$ 489,154
2000	401,480
2001	230,060
2002	203,408
2003	201,825
More than 5 years	955,546

Total	\$2,481,473

</TABLE>

Total expenditures charged for leases for the reporting periods ended December 31, 1998, 1997 and 1996, were \$312,467, \$309,034 and \$250,736, respectively.

The Company is involved in various litigation. In the opinion of management and the Company's legal counsel, the disposition of all such litigation pending will not have a material effect on the Company's financial statements.

At December 31, 1998 and 1997, the Bank was contingently liable for letters of credit accommodations made to its customers totaling \$889,684 and \$298,019, respectively. At December 31, 1998 and 1997, the Bank had undisbursed loan commitments in the amount of \$26,363,856 and \$20,112,680, respectively. The Bank makes commitments to extend credit in the normal course of business to meet the financing needs of its customers. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total outstanding commitment amount does not necessarily represent future cash requirements. Standby letters of credit written are confidential commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank anticipates no losses as a result of such transactions.

NOTE #10 - NOTES PAYABLE

On September 11, 1998, the Bancorp obtained a revolving line of credit in the amount of \$2,000,000 through Pacific Coast Bankers' Bank. The note is secured by 339,332 shares of the Bank's stock. The note matures August 15, 2004, and bears interest at a variable rate of 1.00% over the Wall Street Journal prime rate. The outstanding principal balance at December 31, 1998, was \$750,000. The note is payable in four quarterly interest payments followed by 20 consecutive principal and interest payments.

The following is the required principal resolution of the note assuming full disbursement of loan

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996

proceeds of \$2,000,000:

<TABLE>
 <CAPTION>

Year Ending December 31, -----	Amount -----
<S>	<C>
1999	\$ 100,000
2000	400,000
2001	400,000
2002	400,000
2003	400,000
2004	300,000
Total	\$2,000,000 ----- -----

</TABLE>

NOTE #11 - STOCK SPLIT

On September 4, 1997, the Board of Directors approved a three-for-two stock split of its common stock. The outstanding shares and related calculations included in these financial statements reflect retroactive adjustments for this stock split.

NOTE #12 - STOCK OPTION PLANS

At December 31, 1998, the Bank had two stock option plans, which are described below. The Bank applies APB Opinion 25 and related interpretations in accounting for its plan. Accordingly, no compensation costs have been recognized for its stock option plans. Had compensation costs for these plans been determined on the fair value at the grant dates consistent with the method of SFAS No. 123, the impact would not have materially affected net income.

The Company adopted the Bank's 1990 stock option plan, which is a tandem stock option plan permitting options to be granted either as "Incentive Stock Options" or as non-qualified stock options under the Internal Revenue Code. All outstanding options were granted at prices which equal the fair market value on the day of grant. Options granted vest at a rate of 25 percent per year for four years, and expire no later than ten years from the date of grant. The plan provides for issuance of up to 138,465 shares (after giving retroactive effect for a three-for-two stock split in 1997) of the Company's unissued common stock and is subject to the specific approval of the Board of Directors.

NOTE #12 - STOCK OPTION PLANS, (CONTINUED)

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for 1997: risk-free rates of 5.78% and dividend yield of 3.22%, expected life of five years; and volatility of 34%.

The following tables summarize information about the 1990 stock option plan outstanding at December 31, 1998. These tables are not affected by the subsequent stock dividend as discussed in Note #26.

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
 <CAPTION>

	1998		1997		1996	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	99,749	\$4.21	119,447	\$3.92	133,908	\$3.91
Granted			4,104	\$10.67		
Cancelled	(562)	\$10.67				
Exercised	(29,415)	\$3.90	(23,802)	\$3.83	(14,461)	\$3.83
Outstanding at end of year	69,772	\$4.29	99,749	\$4.21	119,447	\$3.92
Options available for granting at end of year	3		3		4,107	
Weighted average fair value of options granted				\$3.08		

<TABLE>
 <CAPTION>

Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Exercise Price	Number Exercisable	Weighted-Average Exercise Price

<S>	<C>	<C>	<C>	<C>	<C>
\$3.83	40,168	4.09	\$3.83	40,168	\$3.83
\$4.00 - 4.33	26,250	1.68	\$4.17	26,250	\$4.17
\$10.67	3,354	8.53	\$10.67	839	\$10.67
	69,772	3.40	\$4.29	67,257	\$4.05

</TABLE>

The Company adopted the Bank's 1997 stock option plan, which is a tandem stock option plan permitting options to be granted either as "Incentive Stock Options" or as "Non-qualified Stock Options" under the Internal Revenue Code.

All outstanding options were granted at prices which equal the fair market value on the day of the grant. Options granted vest at a rate of 20 percent per year for five years, and expire no later than ten years from the date of grant. The plan provides for issuance of up to 161,049 shares (after giving retroactive effect for a three-for-two stock split in 1997) of the Company's unissued common stock and is subject to the specific approval of the Board of Directors.

NOTE #12 - STOCK OPTION PLANS, (CONTINUED)

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for 1998 and 1997, respectively: risk-free rates of 4.80% and 5.78%, dividend yields of 2.67% and 3.22%, expected life of eight years; and volatility of 25% and 34%. No options were granted for this plan prior to 1997.

The following summarizes information about the 1997 stock option plan. These tables are not affected by the subsequent stock dividend as discussed in Note #26.

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	1998		1997	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	139,146	\$10.67		
Granted	6,500	\$15.15	139,146	\$10.67
Cancelled	(11,400)	\$10.67		
Exercised	(3,750)	\$10.67		
Outstanding at end of year	130,496	\$10.89	139,146	\$10.67
Options available for grant end of year	26,803		21,903	
Weighted average fair value of options granted		\$ 3.94		\$ 3.43

<TABLE>
<CAPTION>

Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
\$10.67	123,996	8.53	\$10.67	24,799	\$10.67
\$16.25	1,500	9.29	\$16.25	-	-
\$16.50	5,000	9.97	\$16.50	-	-

-----	130,496	8.60	\$10.89	-----	24,799	10.67	-----
-----				-----			-----
-----				-----			-----

</TABLE>

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #13 - OTHER INCOME/EXPENSE

The following is a breakdown of fees and other income and expenses for the years ended December 31, 1998, 1997 and 1996:

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Fees and Other Income			
ATM transaction fees	\$3,380,117	\$2,433,051	\$1,024,017
ATM interchange income	767,192	808,901	882,058
ATM sponsorship fees	115,516	139,628	16,109
Bankcard merchant fees	757,380	697,159	363,247
Mortgage broker fees	301,988	127,411	57,399
Other	316,465	205,097	158,278
	-----	-----	-----
	\$5,638,658	\$4,411,247	\$2,501,108
	-----	-----	-----
	-----	-----	-----
Other Expenses			
Data processing	801,943	615,809	481,844
Advertising and promotional	217,719	110,418	123,240
Regulatory fees	47,756	28,779	159,324
Other professional fees and outside services	58,144	66,850	54,376
Legal fees and other litigation expenses	187,863	152,351	118,071
Stationery and supplies	107,595	111,942	98,386
Bankcard merchant expense	864,970	604,011	290,236
Director fees	158,476	96,275	88,675
ATM costs at gaming sites	2,076,345	1,053,056	
ATM costs at retail sites	680,448	695,118	486,831
Other	551,160	512,963	396,580
	-----	-----	-----
Total	\$5,752,419	\$4,047,572	\$2,297,563
	-----	-----	-----
	-----	-----	-----

</TABLE>

NOTE #14 - RESTRICTION ON TRANSFERS OF FUNDS TO PARENT

There are legal limitations on the ability of the Bank to provide funds to the Company. Dividends declared by the Bank may not exceed, in any calendar year, without approval of the State Banking Department, net income for the year and the retained net income for the preceding two years. Section 23A of the Federal Reserve Act restricts the Bank from extending credit to the Company and other affiliates amounting to more than 20 percent of its contributed capital and retained earnings. During 1998, the Bank paid the parent \$665,355 in dividends.

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #15 - SALARY CONTINUATION PLAN

The Bank established a salary continuation plan agreement with the President, Chief Financial Officer, Chief Lending Officer, and Chief Administrative Officer, as authorized by the Board of Directors. This agreement provides for annual cash payments for a period not to exceed 15 years, beginning at retirement age 60. In the event of death prior to retirement age, annual cash payments would be made to the beneficiaries for a determined number of years. The present values of the Company's liability under this Agreement were \$185,353 and \$134,673 at December 31, 1998 and 1997, respectively, and are included in other liabilities in the Company's Consolidated Financial Statements. The Company maintains life insurance policies, which are intended to fund all costs of the plan. The cash surrender values of these life insurance policies totaled \$1,020,576 and \$970,318, at December 31, 1998 and 1997, respectively.

NOTE #16 - 401(k) PENSION PLAN

During 1994, the Bank established a savings plan for employees which allows participants to make contributions by salary deduction equal to 15% or less of their salary pursuant to section 401(k) of the Internal Revenue Code. Employee contributions are matched up to 25% of the employee's contribution. Employees vest immediately in their own contributions and they vest in the Bank's contribution based on years of service. Expenses of the savings plan were \$34,619, \$24,048, and \$16,651, for the years ended December 31, 1998, 1997 and 1996, respectively.

NOTE #17 - EARNINGS PER SHARE (EPS)

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS. Share information has been retroactively adjusted for the subsequent stock dividend as discussed in Note #26.

<TABLE>
<CAPTION>

	1998		1997		1996	
	Net Income	Shares	Net Income	Shares	Net Income	Shares
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net income as reported	\$ 1,346,595		\$ 1,261,064		\$ 913,831	
Shares outstanding at year-end		1,112,583		1,078,091		1,053,337
Impact of weighting shares purchased during the year		(25,307)		(9,096)		(7,330)
Used in Basic EPS	1,346,595	1,087,276	1,261,064	1,068,995	913,831	1,046,007
Dilutive effect of outstanding stock options		104,712		66,695		41,189
Used in Dilutive EPS	\$ 1,346,595	1,191,988	\$ 1,261,064	1,135,690	\$ 913,831	1,087,196

</TABLE>

NOTE #18 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's

assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 1998, that the Bank meets all capital adequacy requirements to which it is subject.

As of the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well-capitalized, the Bank must maintain minimum capital ratios as set forth in the table below. The following table also sets forth the Bank's actual regulatory capital amounts and ratios (dollar amounts in thousands):

<TABLE>

<CAPTION>

	Capital Needed					
	Actual Regulatory		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of December 31, 1998						
Total capital to risk-weighted assets	\$10,342	10.81%	\$7,656	8.0%	\$9,570	10.0%
Tier 1 capital to risk-weighted assets	\$9,272	9.69%	\$3,828	4.0%	\$5,742	6.0%
Tier 1 capital to average assets	\$9,272	7.55%	\$4,915	4.0%	\$6,144	5.0%
As of December 31, 1997						
Total capital to risk-weighted assets	\$8,841	13.45%	\$5,259	8.00%	\$6,573	10.00%
Tier 1 capital to risk-weighted assets	\$8,018	12.18%	\$2,633	4.00%	\$3,950	6.00%
Tier 1 capital to average assets	\$8,018	8.59%	\$3,732	4.00%	\$4,665	5.00%

</TABLE>

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #19 - ACQUISITION OF ASSETS AND LIABILITIES

On February 21, 1997, the Bank acquired certain assets and liabilities of the Wells Fargo Bank branch located in Cambria, California. The total assets acquired were \$5,255,161, which consisted of \$316,610 of leasehold improvements and fixed assets, \$4,863,150 of cash and \$15,267 of loans. In addition, the Bank also assumed \$5,255,161 of deposits. The Bank paid a premium of \$60,134 for the deposits. On September 2, 1994, the Bank had paid a premium of \$173,102 for a branch acquisition. Both of these premiums are being amortized over a five-year period. Amortization of the premiums for 1998, 1997 and 1996, was \$46,647, \$43,641, and \$34,620, respectively. The remaining unamortized premiums at December 31, 1998, 1997 and 1996, were \$62,168, \$108,815, and \$92,321.

NOTE #20 - OTHER REAL ESTATE OWNED

As discussed in Note #1H, Other Real Estate Owned is carried at the estimated fair value of the real estate. An analysis of the transactions for December 31, 1998 and 1997, were as follows:

<TABLE>

<CAPTION>

	1998	1997
<S>	<C>	<C>
Balance, Beginning of year	\$ 62,000	-
Additions	-	\$ 62,000
Sales	(62,000)	-
Balance, End of year	\$ -	\$ 62,000

</TABLE>

There were no Other Real Estate Owned transactions during 1996.

NOTE #21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of fair value information about all financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank.

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #21 - FAIR VALUE OF FINANCIAL INSTRUMENTS, (CONTINUED)

The following table presents the carrying amounts and fair values of financial instruments at December 31, 1998. SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	Carrying Amount	Fair Value
<S>	<C>	<C>
Assets		
Cash and cash equivalents	\$24,939,179	\$24,939,179
Investment bearing deposits	666,975	666,975
Investment and mortgage-backed securities	28,621,257	28,922,113
Loans receivable	72,214,308	72,278,539
Accrued interest receivable		
Liabilities		
Non-interest bearing deposits	38,672,576	38,672,576
Interest bearing deposits	80,735,130	80,749,292
Notes Payable	750,000	750,000
Accrued interest payable		
	Notional Amount	Cost to Cede or Assume
Off-Balance Sheet Instruments		
Commitments to extend credit and standby letters of credit	\$27,253,540	\$ 272,535

</TABLE>

The following methods and assumptions were used by the Bank in estimating fair value disclosures:

- CASH AND CASH EQUIVALENTS

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values due to the short-term nature of the assets.

- INTEREST BEARING DEPOSITS

Fair values for time deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits.

- INVESTMENT AND MORTGAGE-BACKED SECURITIES

Fair values are based upon quoted market prices, where available.

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #21 - FAIR VALUE OF FINANCIAL INSTRUMENTS, (CONTINUED)

- LOANS

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value.

- DEPOSITS

The fair values disclosed for demand deposits (for example, interest-bearing checking accounts and passbook accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates fair value.

- LONG-TERM DEBT - NOTES PAYABLE

The fair value disclosed for notes payable is based on carrying amounts. The note is a variable-rated note that reprices frequently.

- OFF-BALANCE SHEET INSTRUMENTS

Fair values of loan commitments and financial guarantees are based upon fees currently charged to enter similar agreements, taking into account the remaining terms of the agreement and the counterparties' credit standing.

NOTE #22 - TIME DEPOSIT LIABILITIES

At December 31, 1998, the Bank had time certificates of deposit with maturity distributions as follows:

<TABLE>
<CAPTION>

<S>	<C>
Due in one year or less	\$26,173,587

Due after one year through three years	2,746,854
Due after three years	209,808

	\$29,130,249

</TABLE>

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #23 - OTHER BORROWED MONEY

Other borrowed money consisted of the following:

<TABLE> <CAPTION>		1998 Average Balance (1)	1997 Average Balance (1)
<S>	<C>	<C>	<C>
Securities sold under agreements to repurchase		\$ 738,318	\$ 932,565
Federal funds purchased		128,302	40,438
		-----	-----
		\$ 866,620	\$ 973,003
		-----	-----
The maximum outstanding balance at any month end during the year	\$2,002,500		\$3,760,000

</TABLE>

(1) Average balances are computed using the daily balances outstanding during the year.

There was no balance as of December 31, 1998 and 1997.

Interest expense on federal funds purchased was \$5,090, \$2,572, and \$2,360 and interest expense on securities sold under agreements to repurchase was \$46,158, \$53,880, and \$27,434 for the years ended December 31, 1998, 1997 and 1996, respectively.

The Bank has a fed funds borrowing line with a correspondent bank. The credit limit available on that line is \$3,500,000.

NOTE #24 - OPERATING SEGMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information," which the Bank has adopted in the current year. The Company has two primary reportable segments. The segments reported herein apply to the Bank and the Bank's EFT Department. The segments are identified as such based upon the percentage of operating net income, management responsibility, and the types of products and services offered.

The segments consist of the Bank and four separately classified components within the EFT Department referred to as networks. The Bank offers traditional banking products such as checking, savings, and certificates of deposit, as well as mortgage, commercial, and consumer loans. The EFT Department has installed 64 automatic teller machines located in retail outlets and gaming facilities, and approximately 300 point of sale machines located in retail outlets. Income is based upon total customer usage of the machines and the applicable transaction charge. Income is allocated to the Bank via contractual agreement. The Bank measures segment profit as operating net income which is defined as income before provision for income taxes.

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #24 - OPERATING SEGMENTS, (CONTINUED)

Presented below is comparative financial information relating to the Bank's operating segments:

<TABLE>

<CAPTION>

	EFT Department -----	Bank -----	Consolidated -----
<S>	<C>	<C>	<C>
FISCAL YEAR ENDED DECEMBER 31, 1998			
Revenues	\$5,085,276	\$ 9,266,192	\$14,351,468
Depreciation and amortization	2,247	425,841	428,088
Operating income	1,069,050	1,005,571	2,074,621
Total assets	7,999,357	123,034,141	131,033,498
	EFT Department -----	Bank -----	Consolidated -----
FISCAL YEAR ENDED DECEMBER 31, 1997			
Revenues	\$4,094,762	\$ 7,556,673	\$11,651,435
Depreciation and amortization		351,303	351,303
Operating income	1,367,429	675,367	2,042,796
Total assets	7,408,302	85,911,120	93,319,422
	EFT Department -----	Bank -----	Consolidated -----
FISCAL YEAR ENDED DECEMBER 31, 1996			
Revenues	\$2,287,260	\$ 6,193,027	\$8,480,287
Depreciation and amortization		262,424	262,424
Operating income	964,045	503,129	1,467,174
Total assets	10,121,109	75,001,208	85,122,317

</TABLE>

NOTE #25 - CASH DIVIDENDS

On January 29, 1998, the Board of Directors declared a cash dividend of \$.50 per share to stockholders' of record on February 9, 1998. The dividend paid was \$519,718.

On January 23, 1997, the Board of Directors declared a cash dividend of \$.33 per share (after retroactive adjustment for 1997 stock split) to stockholders' of record on February 7, 1997. The dividend paid was \$337,787.

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #26 - SUBSEQUENT EVENTS

On January 28, 1999, the Board of Directors declared a 4% stock dividend payable on February 26, 1999 to stockholders of record on February 15, 1999. Per share amounts in the accompanying financial statements have been restated for the stock dividend. Per share amounts for December 31, 1998, 1997 and 1996, prior to the restatement of the stock dividend were as follows:

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Basic	\$ 1.29	\$ 1.23	\$ 0.91
Diluted	\$ 1.17	\$ 1.15	\$ 0.87

</TABLE>

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #27 - CONDENSED FINANCIAL INFORMATION OF HERITAGE OAKS BANCORP (PARENT COMPANY)

<TABLE>
<CAPTION>

	BALANCE SHEETS	
	1998	1997
	-----	-----
<S>	<C>	<C>
ASSETS		
Cash	\$ 108,161	\$ 300,296
Prepaid	286,723	89,024
Construction in progress	406,733	
Investment in subsidiary	9,398,102	7,746,408
	-----	-----
Total Assets	\$10,199,719	\$8,135,728
	-----	-----

</TABLE>

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	<C>	<C>
<S>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable	750,000	
Other Liabilities	13,049	8,650
	-----	-----
Total Liabilities	763,049	8,650
	-----	-----
Stockholders' Equity		
Common stock	4,470,170	4,180,486
Retained earnings	4,966,500	3,946,592
	-----	-----
Total Stockholders' Equity	9,436,670	8,127,078
	-----	-----
Total Liabilities and Stockholders' Equity	\$10,199,719	\$8,135,728
	-----	-----

</TABLE>

STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
INCOME			
Equity in undisbursed income of subsidiary	\$1,423,886	\$1,317,202	\$950,057
	-----	-----	-----
Total Income	1,423,886	1,317,202	950,057
	-----	-----	-----
EXPENSE			
Salary expense	35,284	32,283	31,987
Equipment expense	182		
Other professional fees and outside services	44,930	22,785	13,781
Interest expense	12,632		
Other	39,724	37,887	16,141
	-----	-----	-----
Total Expense	132,570	92,955	62,091
	-----	-----	-----
Total Operating Income	1,291,316	1,224,247	887,966
	-----	-----	-----
Tax benefit of parent	(55,279)	(36,817)	(25,865)
	-----	-----	-----
Net Income	\$1,346,595	\$1,261,064	\$913,831
	-----	-----	-----

</TABLE>

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HERITAGE OAKS BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE #27 - CONDENSED FINANCIAL INFORMATION OF HERITAGE OAKS BANCORP (PARENT COMPANY), (CONTINUED)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$1,346,595	\$1,261,064	\$ 913,831
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities			
Increase in other assets	(197,699)	(31,217)	(28,434)
Increase/(decrease) in other liabilities	4,399	(24,825)	(11,062)
Undistributed income of subsidiary	(1,423,886)	(1,317,202)	(950,057)
	-----	-----	-----
Net Cash Used In Operating Activities	(270,591)	(112,180)	(75,722)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and premises	(406,733)		
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends declared	(519,850)	(339,138)	(213,011)
Cash dividends received	665,355	345,985	499,016
Additional contributed capital	(700,000)		
Increase in loans payable	750,000		
Proceeds from the exercise of options	289,684	91,241	55,436
	-----	-----	-----
Net Cash Provided By Financing Activities	485,189	98,088	341,441
	-----	-----	-----

NET INCREASE/(DECREASE) IN CASH	(192,135)	(14,092)	265,719
CASH, Beginning of year	300,296	314,388	48,669
CASH, End of year	\$ 108,161	\$ 300,296	\$ 314,388

</TABLE>

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SELECTED QUARTERLY FINANCIAL DATA
(UNAUDITED)

The selected quarterly data for 1998 and 1997 is based on the unaudited financial statements of the Company as presented by Management.

<TABLE>
<CAPTION>

(Dollars in thousands, except per share data)	Quarter Ended			
	March 31	June 30	September 30	December 31
<S>	<C>	<C>	<C>	<C>
1998				
Net interest income	1,220	1,255	1,417	1,554
Provision for possible loan losses	21	25	58	60
Non-interest income	1,582	1,644	1,695	1,440
Non-interest expenses	2,261	2,361	2,477	2,470
Income before provision for income taxes	520	513	577	464
Provision for income taxes	191	180	202	155
Net Income	\$ 329	\$ 333	\$ 375	\$ 309
Earnings Per Share:				
Basic	0.32	0.32	0.32	0.28
Diluted	0.30	0.30	0.30	0.23
Dividends declared per share				
Total assets	97,445	106,110	119,155	131,138
Total deposits	86,932	96,321	108,364	119,408
Loans, net	60,505	63,538	68,343	69,803
Stockholders' equity	7,987	8,337	8,784	9,437
1997				
Net interest income	1,027	1,097	1,114	1,235
Provision for possible loan losses	60	26	43	35
Non-interest income	836	911	1,619	1,600
Non-interest expenses	1,393	1,506	2,117	2,216
Income before provision for income taxes	410	476	573	584
Provision for income taxes	156	180	222	224
Net Income	\$ 254	\$ 296	\$ 351	\$ 360
Earnings Per Share:				
Basic (1)	0.25	0.29	0.34	0.35
Diluted (1)	0.23	0.27	0.32	0.33
Dividends declared per share				0.33
Total assets	84,897	87,787	93,825	93,319
Total deposits	76,439	79,079	84,184	83,550
Loans, net	51,193	52,802	55,088	54,697
Stockholders' equity	6,980	7,408	7,717	8,127

</TABLE>

(1) Adjusted retroactively for the three-for-two stock split which occurred on November 5, 1997.

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MARKET INFORMATION

There is a limited over-the-counter market for the Company's Common Stock. The Company's Common Stock is not listed on any exchange or market. However, Maguire Investments, Inc., Hoeffer & Arnett, Inc., and Sutro & Co., make a market in the Company's Common Stock.

The information in the following table indicates the high and low bid prices of the Company's Common Stock for each quarterly period during the last two years based upon information provided by Maguire Investments, Inc. and Hoeffer & Arnett. These prices do not include retain mark-ups, mark-downs, or commissions.

<TABLE>
<CAPTION>

Quarter Ended 1998	Bid Prices	
	Low	High
<S>	<C>	<C>
March 31	\$13.50	\$16.00
June 30	15.75	16.75
September 30	16.00	17.75
December 31	16.00	17.00

Quarter Ended 1997	Bid Prices	
	Low	High
March 31	\$8.00	\$10.00
June 30	10.00	11.33
September 30	10.33	11.33
December 31	11.50	12.67

</TABLE>

AVAILABILITY OF 10-KSB

A COPY OF THE BANCORP'S ANNUAL REPORT ON FORM 10-KSB IS AVAILABLE TO SHAREHOLDERS FREE OF CHARGE BY SENDING A WRITTEN REQUEST TO THE PRESIDENT OF HERITAGE OAKS BANCORP, 545 12TH STREET, PASO ROBLES, CALIFORNIA 93446.

ANNUAL DISCLOSURE STATEMENT

In addition to this Annual Report to Shareholders, the Bank makes available, pursuant to FDIC regulations, an Annual Disclosure Statement. A copy of the Annual Disclosure Statement may be obtained by contacting the President of Heritage Oaks Bancorp, 545 12th Street, Paso Robles, California 93446, or by telephoning (805) 239-5200.

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ITEM 8. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
NONE.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a)
OF THE EXCHANGE ACT

THE INFORMATION REQUIRED BY ITEM 9 OF FORM 10-KSB IS INCORPORATED BY REFERENCE FROM THE INFORMATION CONTAINED IN THE COMPANY'S PROXY STATEMENT FOR THE 1999 ANNUAL MEETING OF SHAREHOLDERS WHICH WILL BE FILED PURSUANT TO REGULATION 14A.

ITEM 10. EXECUTIVE COMPENSATION

THE INFORMATION REQUIRED BY ITEM 10 OF FORM 10-KSB IS INCORPORATED BY REFERENCE FROM THE INFORMATION CONTAINED IN THE COMPANY'S PROXY STATEMENT FOR THE 1999 ANNUAL MEETING OF SHAREHOLDERS WHICH WILL BE FILED PURSUANT TO REGULATION 14A.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

THE INFORMATION REQUIRED BY ITEM 11 OF FORM 10-KSB IS INCORPORATED BY REFERENCE FROM THE INFORMATION CONTAINED IN THE COMPANY'S PROXY STATEMENT FOR THE 1999 ANNUAL MEETING OF SHAREHOLDERS WHICH WILL BE FILED PURSUANT TO REGULATION 14A.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

THE INFORMATION REQUIRED BY ITEM 12 OF FORM 10-K IS INCORPORATED BY REFERENCE FROM THE INFORMATION CONTAINED IN THE COMPANY'S PROXY STATEMENT FOR THE 1999 ANNUAL MEETING OF SHAREHOLDERS WHICH WILL BE FILED PURSUANT TO REGULATION 14A.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS:

(2.1) PLAN OF REORGANIZATION AND MERGER AGREEMENT DATED AS OF MARCH 22, 1994, INCORPORATED BY REFERENCE FROM EXHIBIT 2 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504, FILED WITH THE SEC ON APRIL 8, 1994.

(3.1a) ARTICLES OF INCORPORATION INCORPORATED BY REFERENCE FROM EXHIBIT 3.1A TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504 FILED WITH THE SEC ON APRIL, 1994.

(3.1b) AMENDMENT TO THE ARTICLES OF INCORPORATION FILED WITH THE SECRETARY OF STATE ON OCTOBER 16, 1997.

(3.2) BYLAWS INCORPORATED BY REFERENCE FROM EXHIBIT 3.2 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504, FILED WITH THE SEC ON APRIL 8, 1994.

(4.1) SPECIMEN FORM OF HERITAGE OAKS BANCORP STOCK CERTIFICATE INCORPORATED BY REFERENCE FROM EXHIBIT

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4.1 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504 FILED WITH THE SEC ON APRIL 8, 1994.

(10.1) AGREEMENT TO PURCHASE ASSETS AND ASSUME LIABILITIES BETWEEN HERITAGE OAKS BANK AND LA CUMBRE SAVINGS BANK, DATED MARCH 28, 1994, INCORPORATED BY REFERENCE FROM EXHIBIT 10.1 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504, FILED WITH THE SEC ON APRIL 8, 1994.

* (10.2) 1990 STOCK OPTION PLAN INCORPORATED BY REFERENCE FROM EXHIBIT 10.2 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504, FILED WITH THE SEC ON APRIL 8, 1994.

* (10.3) FORM OF STOCK OPTION AGREEMENT INCORPORATED BY REFERENCE FROM EXHIBIT 4.2 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504, FILED WITH THE SEC ON APRIL 8, 1994.

* (10.4) LAWRENCE P. WARD EMPLOYMENT LETTER AGREEMENT, DATED NOVEMBER 17, 1992, INCORPORATED BY REFERENCE FROM EXHIBIT 10.3 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504, FILED WITH THE SEC ON APRIL 8, 1994.

(10.5) SERVICE AGREEMENT, DATED NOVEMBER 10, 1992, BETWEEN HERITAGE OAKS BANK AND MESCOM ENTERPRISES, INC. DBA NATIVE AMERICAN NETWORK SYSTEM, INCORPORATED BY REFERENCE FROM EXHIBIT 10.4 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504, FILED WITH THE SEC ON APRIL 8, 1994.

(10.6) LETTER AGREEMENT, DATED OCTOBER 23, 1992, BETWEEN HERITAGE OAKS BANK AND PETER GHEORGHIU, INCORPORATED BY REFERENCE FROM EXHIBIT 10.5 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504, FILED WITH THE SEC ON APRIL 8, 1994.

(10.7) ITEM PROCESSING AND BACK OFFICES SERVICING AGREEMENT, DATED AUGUST 11, 1993, BETWEEN HERITAGE OAKS BANK AND SYSTEMATICS FINANCIAL SERVICES, INC., INCORPORATED BY REFERENCE FROM EXHIBIT 10.6 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504, FILED WITH THE SEC ON APRIL 8, 1995.

(10.8) DATA PROCESSING AGREEMENT, DATED OCTOBER 1, 1992, BETWEEN HERITAGE OAKS BANK AND CITY NATIONAL INFORMATION SYSTEMS, INCORPORATED BY REFERENCE FROM EXHIBIT 10.7 TO REGISTRATION STATEMENT ON FORM S-4 NO. 33-77504, FILED WITH THE SEC ON APRIL 8, 1994.

* (10.9) 401(k) PENSION AND PROFIT SHARING PLAN FILED WITH THE SEC IN THE

COMPANY'S 10K REPORT FOR THE YEAR ENDED DECEMBER 31, 1994.

* (10. 10) HERITAGE OAKS BANCORP 1995 BONUS PLAN, FILED WITH THE SEC IN THE COMPANY'S 10K REPORT FOR THE YEAR ENDED DECEMBER 31, 1994.

* (10.11) SALARY CONTINUATION PLAN OF HERITAGE OAKS BANK, FILED WITH THE SEC IN THE COMPANY'S 10K REPORT FOR THE YEAR ENDED DECEMBER 31, 1994.

* (10. 12) SALARY CONTINUATION AGREEMENT WITH LAWRENCE P. WARD, FILED WITH THE SEC IN THE COMPANY'S 10K REPORT FOR THE YEAR ENDED DECEMBER 31, 1994.

* (10. 13) SALARY CONTINUATION AGREEMENT WITH GWEN R. PELFREY, FILED WITH THE SEC IN THE COMPANY'S 10K REPORT FOR THE YEAR ENDED DECEMBER 31, 1994.

* (10. 14) SALARY CONTINUATION AGREEMENT WITH ROBERT E. BLOCH, FILED WITH THE SEC IN THE COMPANY'S 10K REPORT FOR THE YEAR ENDED DECEMBER 31, 1994.

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(10.15) WOODLAND SHOPPING CENTER LEASE, FILED WITH THE SEC IN THE COMPANY'S 10K REPORT FOR THE YEAR ENDED DECEMBER 31, 1994.

(10.16) LAGUNA VILLAGE SUBLEASE, FILED WITH THE SEC IN THE COMPANY'S 10K REPORT FOR THE YEAR ENDED DECEMBER 31, 1994.

* (10.17) LAWRENCE P. WARD EMPLOYMENT LETTER AGREEMENT, DATED FEBRUARY 27, 1996, FILED WITH THE SEC IN THE COMPANY'S 10KSB REPORT FOR THE YEAR ENDED DECEMBER 31, 1995.

(10.18) 1135 SANTA ROSA STREET LEASE, FILED WITH THE SEC IN THE COMPANY'S 10KSB REPORT FOR THE YEAR ENDED DECEMBER 31, 1995.

(10.19) PURCHASE AND ASSUMPTION BETWEEN WELLS FARGO BANK, N.A. AND HERITAGE OAKS BANK, DATED AS OF OCTOBER 15, 1996, FILED WITH THE SEC IN THE COMPANY'S 8-K REPORT, DATED DECEMBER 2, 1996.

(10.20) LEASE AGREEMENT FOR CAMBRIA BRANCH OFFICE DATED FEBRUARY 21, 1997 FILED WITH THE SEC IN THE COMPANY'S 10KSB REPORTED FOR THE YEAR ENDED DECEMBER 31, 1996.

(10.21) 1997 STOCK OPTION PLAN INCORPORATED BY REFERENCE FROM EXHIBIT 4A TO REGISTRATION STATEMENT ON FORM S-8 NO.333-31105 FILED WITH THE SEC ON JULY 11, 1997.

(10.22) FORM OF STOCK OPTION AGREEMENT INCORPORATED BY REFERENCE FROM EXHIBIT 4B TO REGISTRATION STATEMENT ON FORM S-8 NO. 333-31105 FILED WITH THE SEC ON JULY 11, 1997.

(10.23) MADONNA ROAD LEASE FILED WITH THE SEC IN THE COMPANY'S 10KSB FOR THE YEAR ENDED DECEMBER 31, 1997.

(10.24) SANTA MARIA LEASE COMMENCING NOVEMBER 1, 1998.

(10.25) SERVICE AGREEMENT WITH ONLINE RESOURCES AND COMMUNICATION CORP. DATED DECEMBER 18, 1998 (INTERNET BANKING PRODUCT FOR CUSTOMERS).

(10.26) MASTER DATA PROCESSING AGREEMENT WITH MID WEST PAYMENT SYSTEMS, INC. COMMENCING OCTOBER 1, 1998.

(21) SUBSIDIARIES OF HERITAGE OAKS BANCORP. HERITAGE OAKS BANK IS THE ONLY SUBSIDIARY OF HERITAGE OAKS BANCORP.

(23) CONSENT OF INDEPENDENT ACCOUNTANTS

(27) FINANCIAL SCHEDULE

*DENOTES MANAGEMENT CONTRACTS, COMPENSATORY PLANS OR ARRANGEMENTS.

REPORTS ON FORM 8-K:

DURING THE FOURTH QUARTER OF 1998, THE COMPANY DID NOT FILE ANY REPORTS ON FORM 8-K.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934, THE COMPANY HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

HERITAGE OAKS BANCORP

BY: /S/ LAWRENCE P. WARD
LAWRENCE P. WARD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

DATED: MARCH 25, 1999

BY: /S/MARGARET A. TORRES
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

DATED: MARCH 25, 1999

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

DATED: MARCH 18, 1999

<TABLE>
<CAPTION>

<S> /S/ B.R. BRYANT B.R. BRYANT DIRECTORS	<C> CHAIRMAN OF THE BOARD OF	<C> MARCH 18, 1999
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/S/ DONALD H. CAMPBELL DONALD H. CAMPBELL OF DIRECTORS	VICE CHAIRMAN OF THE BOARD	MARCH 18, 1999
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/S/ KENNETH DEWAR KENNETH DEWAR	DIRECTOR	MARCH 18, 1999
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/S/ DOLORES T. LACEY DOLORES T. LACEY	DIRECTOR	MARCH 18, 1999
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/S/ MERLE F. MILLER MERLE F. MILLER	DIRECTOR	MARCH 18, 1999
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/S/ JOHN PALLA JOHN PALLA	DIRECTOR	MARCH 18, 1999
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/S/ OLE K. VIBORG OLE K. VIBORG	DIRECTOR	MARCH 18, 1999
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/S/ LAWRENCE P. WARD LAWRENCE P. WARD	DIRECTOR	MARCH 18, 1999
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/S/ DAVID WEYRICH DAVID WEYRICH	DIRECTOR	MARCH 18, 1999
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</TABLE>

EXHIBIT INDEX

<TABLE>

<CAPTION>

EXHIBIT SEQUENTIAL NUMBER	DESCRIPTION	PAGE NUMBER
<S>	<C>	<C>
(10.24)	SANTA MARIA LEASE COMMENCING NOVEMBER 1, 1998.	
(10.25)	SERVICE AGREEMENT WITH ONLINE RESOURCES AND COMMUNICATION CORP. DATED DECEMBER 18, 1998 (INTERNET BANKING PRODUCT FOR CUSTOMERS).	
(10.26)	MASTER DATA PROCESSING AGREEMENT WITH MID WEST PAYMENT SYSTEMS, INC. COMMENCING OCTOBER 1, 1998.	
23	CONSENT OF INDEPENDENT ACCOUNTANTS	
27	FINANCIAL DATA SCHEDULE	

</TABLE>

LEASE

This Lease ("Lease") is entered into as of November 1, 1998, between RICHARD C. BLAKE ("Landlord") and HERITAGE OAKS BANK, a California corporation ("Tenant")

RECITALS

A. Landlord is the owner of certain land, building, and improvements located in Santa Maria, California, generally described as a commercial building located at 1660 South Broadway, and more particularly described in attached Exhibit "A" ("Premises").

B. Landlord desires to lease to Tenant and Tenant desires to lease from Landlord the Premises on the terms and conditions in this Lease.

For good and valuable consideration, the parties agree as follows:

1. DEFINITIONS. As used in this Lease the following terms shall have the following definitions:

ADJUSTMENT DATE is defined in Section 5.b.

COMMENCEMENT DATE is defined in Section 3.

EXTENDED TERM is defined in Section 4.

EVENT OF DEFAULT is defined in Section 22.

HAZARDOUS SUBSTANCE is defined in Section 7.c.

INDEX is defined in Section 5.c.

INITIAL MONTHLY RENT is defined in Section 5.a.

LANDLORD is defined in the preamble of this Lease.

LEASE is defined in the preamble of this Lease.

MINIMUM MONTHLY RENT is defined in Section 5.a.

OPTION NOTICE is defined in Section 4.

PREMISES is defined in Recital A.

REPORTABLE USE is defined in Section 7.c.

TENANT is defined in the preamble of this Lease.

TERM is defined in Section 3.

TERMINATION DATE is defined in Section 3.

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TRADE FIXTURE is defined in Section 17.a.

2. LEASE. Landlord leases to Tenant and Tenant leases from Landlord the Premises on the terms and conditions in this Lease.

3. TERM OF LEASE. The initial term of this Lease ("Term") shall be for ten (10) years commencing on November 1, 1998 ("Commencement Date"), and ending on October 31, 2008, unless sooner terminated pursuant to the terms of this Lease ("Termination Date").

4. OPTION TO EXTEND. Tenant is given three (3) separate and consecutive options to extend the Term on all of the provisions contained in this Lease, except for the Minimum Monthly Rent, each for a five (5) year period ("Extended Term") following expiration of the Initial Term or Extended Term, by giving notice of exercise of the option ("Option Notice") to Landlord at least six (6) months, but not more than one (1) year before the expiration of the Term or Extended Term. Provided that if Tenant is in default on the date of giving the Option Notice, the Option Notice shall be totally ineffective, or if Tenant is in default on the date any Extended Term is to commence, provided that Landlord has given Tenant prior written notice of such default, the Extended Term shall not commence and this Lease shall expire at the end of the Initial Term or then-current Extended Term

Tenant shall have no other right to extend the Term beyond October 31, 2023.

5. MINIMUM MONTHLY RENT.

a. For the period commencing November 1, 1998, and ending October 31, 1999, the minimum monthly rental shall be Five Thousand Three Hundred Ninety-Five Dollars (\$5,395.00) (Initial Monthly Rent and as adjusted from time to time, Minimum Monthly Rent). The Minimum Monthly Rent shall be payable in advance not later than the fifth (5th) business day of each month. The payment shall be made by electronic transfer into Landlord's account at Bank of America, 1105 Higuera Street, San Luis Obispo, California, Account No. 00614-06469, or by electronic transfer or other method as Landlord may from time to time designate by written notice to Tenant.

b. The Minimum Monthly Rent shall be adjusted annually as of November 1, ("Adjustment Date") to an amount equal to the greater of

(i) the Minimum Monthly Rent in effect immediately prior to the Adjustment Date (without regard to any temporary abatement of rental then or previously in effect pursuant to the provisions of this Lease), or

(ii) the product obtained by multiplying the Initial Monthly Rent (without regard to any temporary abatement of rental then or previously in effect pursuant to the provisions of this Lease) by a fraction, the numerator of which is the Index, as defined below, published nearest but prior to the Adjustment Date and the denominator of which is the Index published nearest but prior to the Commencement Date.

No adjustment shall be greater than six percent (6%) per year.

c. The term Index as used in this Lease shall mean the Consumer Price Index (All Urban Consumers) (base year 1982-84-100) for San Francisco-Oakland-San Jose, published by the Bureau of Labor Statistic of the United States Department of Labor. If the Bureau of Labor Statistics revises the Index, the parties agree that the Bureau of Labor Statistics will be the sole

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judge of the comparability of successive indexes. If that agency, however, fails to supply indexes that it deems comparable, or if no succeeding index is published, the parties shall then negotiate to determine an appropriate alternative published price index. If they are unable to agree on an alternative Index within thirty (30) days after the request to do so is made by one party to the other, then either party may request that each appoint a person, within fifteen (15) days after the request, to select an alternative published price index. The two persons so appointed, within fifteen (15) days after the later of them is appointed, shall appoint a third person to act with them in the selection of an alternative price index. If either of the first two fails to appoint the third, or if Landlord or Tenant fails to appoint one of the first two, then either Landlord or Tenant can file a petition with the American Arbitration Association solely for the purpose of selecting a third person who must be an M.A.I. appraiser with at least ten years of commercial appraisal experience in northern Santa Barbara or San Luis Obispo Counties. Each party shall bear half the cost of the American Arbitration Association appointing the third person and of paying the third person's fee. The third person, however selected, shall be a person who has not previously acted in any capacity for either party. If any appointee declines or is unable to serve, the appointee shall be replaced by another person appointed in the same manner. Within thirty (30) days after the appointment process is completed, and on the basis of all pertinent facts, the appointees, by majority vote, shall select an alternative published price index and advise Landlord and Tenant in writing of the selection. Each person appointed as an arbitrator shall have at least 10 years prior experience in renting commercial real estate in northern Santa Barbara County or San Luis Obispo County as a licensed California real estate

broker or 10 years commercial appraisal experience as an MAI appraiser. All fees and expenses incurred in the appointment of the persons shall be shared equally by Landlord and Tenant.

d. The Minimum Monthly Rent shall be waived until the date when Tenant opens for business on the Premises, or through December 31, 1998, whichever occurs first.

6. RENT ON EXTENDED TERM. The parties shall have thirty (30) days after Landlord receives each Option Notice in which to agree on Minimum Monthly Rent during the Extended Term. If the parties agree on the Minimum Monthly Rent for the Extended Term during that period, they shall immediately execute an amendment to this Lease stating the Minimum Monthly Rent.

If the parties are unable to agree on the Minimum Monthly Rent for the Extended Term within that period, then within ten (10) days after the expiration of that period each party, at its cost and by giving notice to the other party, shall appoint an M.A.I. real estate appraiser or licensed real estate broker with at least ten (10) years' full-time commercial appraisal or commercial real estate experience in northern Santa Barbara or San Luis Obispo County and set the Minimum Monthly Rent for the Extended Term. If a party does not appoint an appraiser within ten (10) days after the other party has given notice of the name of its appointee, the single appointee shall set the Minimum Monthly Rent for the Extended Term. If the two appraisers/brokers are appointed by the parties as stated in this paragraph, they shall meet promptly and attempt to set the Minimum Monthly Rent for the Extended Term. If they are unable to agree within thirty (30) days after the second appraiser/broker has been appointed, they shall attempt to elect a third appraiser who must be an M.A.I. appraiser with at least ten years of commercial appraisal experience in northern Santa Barbara or San Luis Obispo Counties within ten (10) days after the last day the two appraisers/brokers are given to set the Minimum Monthly Rent. If they are unable to agree on the third appraiser/broker, either of the parties to this Lease by giving ten (10) days' notice to the other party can file a petition with the American Arbitration Association solely for the purpose of selecting a third appraiser who meets the qualifications stated in this paragraph. Each party shall bear half the cost of the American Arbitration Association appointing the third appraiser and of paying the third appraiser's fee. The third

appraiser, however selected, shall be a person who has not previously acted in any capacity for either party.

Within thirty (30) days after the selection of the third appraiser, a majority of the appointees shall set the Minimum Monthly Rent for the extended Term. If a majority of the appointees are unable to set the Minimum Monthly Rent within the stipulated period of time, the three appraisals shall be added together and their total divided by three; the

resulting quotient shall be the Minimum Monthly Rent for the Premises during the Extended Term.

In setting the Minimum Monthly Rent for the Extended Term, the appraiser/broker shall consider the highest and best commercial/retail use as allowed by the current zoning ordinance for the Premises without regard to the restriction on use of the Premises contained in this Lease. The appraisal shall be on the basis of a triple net lease.

In no event, shall the rent on the Extended Term be less than the rent determined in accordance with Section 5 as of the last day of the Initial Term or then-current Extended Term. The rent determined in accordance with this paragraph shall thereafter, commencing annually on November 1 of each Extended Term, be adjusted in accordance with the formula set forth in Paragraphs 5(b) and (c), above.

7. USE/HAZARDOUS SUBSTANCE/COMPLIANCE WITH LAW.

a. Tenant will occupy and use the Premises for a retail banking business and all other operations incident to the conduct of the business, and Tenant agrees not to use the Premises for any immoral or unlawful purpose. Landlord agrees that, subject to Section 18 and to the prior reasonable review and approval by Landlord and compliance with all applicable governmental requirements and restrictions recorded prior to the date of this Lease, Tenant may erect and maintain on the Premises and the building and improvements any signs advertising Tenant's business, as Tenant may desire.

b. Tenant shall not commit any acts on the Premises, nor use the Premises in any manner that will increase the existing rates for or cause the cancellation of any fire, liability, or other insurance policy insuring the Premises or the improvements on the Premises. Tenant shall, at Tenant's own cost and expenses, comply with all requirements of Landlord's insurance carriers that are necessary for the continued maintenance at reasonable rates of replacement cost fire and comprehensive general liability insurance policies on the Premises and the improvements on the Premises.

c. The term "Hazardous Substances" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either. (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for liability of Landlord to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products, byproducts or fractions thereof. Tenant shall not engage in any activity in, or or about the Premises which constitutes a Reportable use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Landlord and

compliance in a timely manner (at Tenant's sole cost and expense) with all applicable law. "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that

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requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority. Reportable Use shall also include Tenant's being responsible for the presence in, on or about the premises of a Hazardous Substance with respect to which any applicable law requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Tenant may, without Landlord's prior consent, but in compliance with all applicable law, use any ordinary and customary materials reasonably required to be used by Tenant in the normal course of Tenant's business permitted on the Premises, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Landlord to any liability therefor. In addition, Landlord may (but without any obligation to do so) condition his consent to the use or presence of any Hazardous Substance, activity or storage tank by Tenant upon Tenant's giving Landlord such additional assurances as Landlord, in his reasonable discretion, deems necessary to protect himself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefrom or therefor, including, but not limited to, the installation (and removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasement) and/or the deposit of an additional security deposit under Paragraph 30 hereof.

d. If Tenant knows, or has reasonable cause to believe, that a Hazardous Substance, or a condition involving or resulting from same, has come to be located in, on, under or about the Premises, other than as previously consented to by Landlord, Tenant shall immediately give written notice of such fact to Landlord. Tenant shall also immediately give Landlord a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action or proceeding given to, or received from, any governmental authority or private party, or persons entering or occupying the Premises, concerning the presence, spill, release, discharge of, or exposure to, any Hazardous Substance or contamination in, on, or about the Premises, including but not limited to all such documents as may be involved in any Reportable Uses involving the Premises.

e. Tenant shall indemnify, protect, defend and hold Landlord, his agents, employees, lenders and the Premises, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, costs, claims, liens, expenses, penalties, permits and attorney's and consultant's fees arising out of or involving any Hazardous Substance or storage tank brought onto the Premises by or for Tenant or under Tenant's control.

Tenant's obligations under this paragraph shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Tenant, and the cost of investigation (including consultant's and attorney's fees and testing), removal remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Landlord and Tenant shall release Tenant from its obligations under this Lease with respect to Hazardous Substances or storage tanks, unless specifically so agreed by Landlord in writing at the time of such agreement.

f. Except as otherwise provided in this Lease, Tenant shall, at Tenant's sole cost and expense, fully, diligently and in a timely manner comply with all "Applicable Law," which term is used in this Lease to include all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions on record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Landlord's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental condition on, in, under or about the Premises, including soil and groundwater conditions, (iii) the use, generation, manufacture,

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production, installation, maintenance, removal, transportation, storage, spill or release of any Hazardous Substance or storage tank), (iv) seismic retrofitting, (v) fire suppression requirements, and (vi) Americans With Disabilities Act accommodations, now in effect or which may hereafter come into effect, and whether or not reflecting a change in policy from any previously existing policy. Tenant shall, within five (5) days after receipt of Landlord's written request, provide Landlord with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Tenant's compliance with any Applicable Law specified by Landlord, and shall immediately upon receipt, notify Landlord in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Tenant or the Premises to comply with any Applicable Law.

g. Landlord and Landlord's lenders shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Tenant with this Lease and all Applicable Laws (as defined in Paragraph 7.f) and to employ experts and/or consultants in connection therewith and/or to advise Landlord with respect to Tenant's activities, including but not limited to the installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance or storage tank on or from the Premises.

8. UTILITIES. During the Term, Tenant shall pay, before delinquency, all charges or assessments for telephone, water, sewer, gas, heat, electricity, garbage disposal, trash disposal, and all other utilities and services of any kind that may be used on the Premises.

9. TAXES.

a. Subject to the terms of Section 9(d), Tenant shall pay to the public authorities charged with the collection on or before the last day on which payment may be made without penalty or interest, or ten (10) days after receipt of the tax bill, whichever is later, as additional rent, all taxes, permit, inspection, and license fees, and other public charges of whatever nature that are assessed against the Premises or arise because of the occupancy, use, or possession of the Premises (including but not limited to taxes on, or which shall be measured by, any rents or rental income, and taxes on personal property, whether of Landlord or Tenant), subsequent to the commencement of the Term, and all installments of assessments that are due during the Term.

b. Landlord shall notify Tenant of the real property taxes and immediately on receipt of the tax bill furnish Tenant with a copy of the tax bill.

c. All real estate taxes levied on the Premises for the tax year in which the Commencement Date falls shall be appropriately prorated between Landlord and Tenant, so that Tenant's share will reflect the portion of that tax year in which Tenant had possession of the Premises under this Lease. Tenant shall pay Tenant's share of the taxes directly to Landlord and not to the public authorities charged with the collection. That payment shall constitute full performance by Tenant, and Landlord shall pay from those funds and Landlord's own funds all of the taxes for that tax year. Taxes levied on the Premises for the tax year in which the Termination Date occurs shall be similarly prorated between Landlord and Tenant to reflect the period of Tenant's possession of the Premises during that tax year. Tenant shall pay Tenant's share of those taxes to Landlord directly rather than to the public authorities, and that payment shall constitute full performance under this Lease with respect to this tax liability.

d. Tenant shall not be required to pay, discharge, or remove any tax (including penalties and interest), assessment, tax lien, forfeiture, or other imposition or charge against the Premises or any part of the Premises or any improvements, so long as Tenant diligently and in good faith contests the validity or the legality of the assessment, levy, or charge by appropriate legal proceedings, which should prevent the collection of the tax, assessment, imposition, or charge contested; provided however, that Tenant, prior to the date that the tax, assessment, imposition, or charge is due and payable, shall either have paid it under protest or shall have, (i)

posted a bond with Landlord sufficient to cover the amount of the taxes and penalties and interest and, (ii) in the case of taxes other than real estate taxes, given to Landlord a letter executed by an officer of Tenant assuring Landlord that the tax, assessment, imposition, or charge will be paid when and to the extent that the legal proceedings conclude in a final determination that the tax, assessment, imposition, or charge is valid, legal and owing. Upon such final determination, Tenant agrees to immediately pay the contested tax, assessment, imposition, or charge, together with all interest and penalties, if any, and remove and discharge any lien or forfeiture arising from the prior nonpayment. Any proceedings for contesting the validity, legality, or amount of any tax, assessment, imposition, or charge, or to recover any tax, assessment, imposition, or charge paid by Tenant, may be brought by Tenant in the name of Landlord or in the name of Tenant, or both, as Tenant deems advisable. Landlord agrees that Landlord will, upon the reasonable request of Tenant, execute or join in the execution of any instrument or document necessary in connection with any proceeding. However, if any proceedings are brought by Tenant, Tenant agrees to indemnify Landlord for all reasonable loss, cost, or expense that may be imposed on Landlord in connection with the proceeding. Tenant's right to contest taxes as provided in this Lease shall not extend beyond the point where Landlord's title to the Premises could be lost. In any event, Tenant shall notify Landlord in advance of any tax contest proceedings that Tenant intends to initiate, and shall then inform Landlord of all significant developments in the proceedings as they may occur.

e. If Tenant has not paid any tax, assessment, or public charge required by this Lease to be paid by Tenant before its delinquency, or if a tax, assessment, or public charge is contested by Tenant and that tax, assessment, or public charge has not been paid within thirty (30) days after a final determination of the validity, legality, or amount of the tax, assessment or public charge, then Landlord may, but shall not be required to, pay and discharge the tax, assessment, or public charge. If a tax, assessment, or public charge, including penalties and interest, are paid by Landlord, the amount of that payment shall be due and payable to Landlord by Tenant with the next succeeding rental installment, and shall bear interest at the rate of ten percent (10%) per annum from the date of the payment by Landlord until repayment by Tenant.

f. If any assessments for local improvements become a lien after the Commencement Date, Tenant shall pay only the installments of the assessments that become due and payable during the Term. On the request of Tenant, Landlord agrees to cooperate or join the Tenant in any application that may be necessary to permit the payment of the assessments in installments.

g. The covenant and agreements to pay taxes by Tenant in Section 9 shall not be deemed to include the payment of any inheritance, estate, succession, transfer, gift, franchise, corporation, income, or profit tax, or capital levy that is or may be imposed on Landlord. If any excepted taxes become a lien against the Premises, Landlord agrees to pay and discharge them before foreclosure of the lien or to take the steps analogous to those

permitted to Tenant under Section 9(d) to contest the taxes, so long as the steps sufficiently protect Tenant's quiet enjoyment of the Premises. If Landlord fails to pay and discharge those taxes prior to the institution of proceedings to foreclose the lien, Tenant, at Tenant's sole option, may advance the funds required to pay and discharge the taxes, together with all penalties and

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interest, in which event the amount of funds so advanced shall be immediately due and payable from Landlord to Tenant and shall bear interest at the rate of ten percent (10%) per annum from the date of payment by Tenant, until repaid. Alternatively, Tenant may apply the amount advanced to the payment of the next succeeding rental installment or installments otherwise payable to Landlord until the advance, with interest, has been repaid to Tenant; provided, however, that the rights of Tenant under Section 9(g) shall be limited to those instances where the foreclosure or other enforcement of the lien may disturb Tenant's possession and peaceful enjoyment of the Premises.

10. CONDITION OF PREMISES. Tenant acknowledges that as of the date of this Lease, Tenant has inspected the Premises and had such contractors, consultants, engineers, architects, roofers, HVAC inspectors and other persons, as Tenant so desires, inspect the Premises for Tenant. Based on Tenant's own inspection, and the inspection of Tenant's inspectors, consultants and experts, Tenant acknowledges that the improvements are in good order, repair and condition. Landlord makes no representations regarding the condition of the premises, which are leased "AS IS."

11. REPAIRS AND MAINTENANCE.

a. Tenant shall keep in good order, condition and repair the Premises and every part thereof, structural and non-structural, (whether or not such portion of the Premises requiring repair or the means of repairing same are reasonably or readily accessible to Tenant, and whether or not the need for such repairs occurs as a result of Tenant's use, any prior use, the elements or age of such portion of the Premises), including without limiting the generality of the foregoing, all plumbing, heating, air conditioning (Tenant shall procure at Tenant's expense, an air conditioning system maintenance contract), ventilating, electrical, lighting facilities and equipment within the Premises, fixtures, walls (interior and exterior, foundations, ceilings, roofs (interior and exterior), floors, windows, doors, plate glass and skylights located within the Premises, and all landscaping, driveways, parking lots, fences and signs located on the Premises and the sidewalks adjacent to the Premises.

b. Tenant shall, not less frequently than once each fifteen (15) years of the Term and Extended Terms, resurface the parking lot. Tenant shall, not less frequently than once every three (3) years of the Term and Extended Terms, slurry coat and restripe the parking lot. Tenant shall, not

less frequently than once each ten (10) years of the Term and Extended Terms, repaint the exterior of the building with the color scheme to be approved in advance by Landlord, if different from existing color scheme.

c. If at any time during the Term, including renewals or extensions, Tenant fails to maintain the Premises or make any repairs or replacements as required by Section 11, Landlord may, on thirty (30) days' prior written notice, unless repairs are deemed emergency or structural, but shall not be required to, enter the Premises and perform the maintenance or make the repairs or replacements for the account of Tenant; any sums expended by Landlord in so doing, together with interest at ten percent (10%) per annum, shall be deemed additional rent and shall be immediately due from Tenant on demand of Landlord.

d. Tenant waives the provisions of Civil Code Sections 1941 and 1942 and any other law that would require Landlord to maintain the Premises in a tenantable condition or would provide Tenant with the right to make repairs and deduct the cost of those repairs from the rent.

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12. ALTERATIONS.

a. Tenant shall have the right to make alterations to the building and improvements on the Premises, provided that, if the reasonably estimated cost of alterations exceeds Ten Thousand Dollars (\$10,000.00), or involves structural modifications, Landlord shall have the right to consent to the alterations, and Landlord agrees not to unreasonably withhold approval of the alterations. Approval, however, may be conditioned upon the receipt by Landlord of a set of plans and specifications for the alterations no later than twenty (20) days prior to the scheduled construction of the alterations, and upon Tenant's agreement to restore the Premises, if Landlord requires it at the end of the Term, to the same condition as before the alterations. All improvements, additions, alterations, and major repairs shall be in accordance with applicable laws and at Tenant's own expense. Tenant will indemnify and defend Landlord for all liens, claims, or damages caused by remodeling, improvements, additions, alterations, and major repairs. Landlord agrees, when requested by Tenant, to execute and deliver any applications, consents, or other instrument required to permit Tenant to do this work or to obtain permits for the work.

b. Except as set forth in Section 12(a), all alterations and improvements made to the Premises shall become the property of Landlord and shall remain on and be surrendered with the Premises at the expiration or sooner termination of this Lease, including any renewals or extensions.

c. At least ten (10) days before any construction commences or materials are delivered for any alterations that Tenant is making to the Premises, whether or not Landlord's consent is required, Tenant shall give

written notice to Landlord as to when the construction is to commence or the materials are to be delivered. Landlord shall then have the right to post and maintain on the Premises any notices that are required to protect Landlord and Landlord's interest in the Premises from any liens for work and labor performed or materials furnished in making the alterations; provided, however, that it shall be Tenant's duty to keep the Premises free and clear of all liens, claims, and demands for work performed, materials furnished, or operations conducted on the Premises at the request of Tenant.

d. Tenant will not at any time permit any mechanics', laborers', or materialmen's liens to stand against the Premises for any labor or material furnished to Tenant or claimed to have been furnished to Tenant or Tenant's agents, contractors, or subtenants, in connection with work of any character performed or claimed to have been performed on the Premises by or at the direction or sufferance of Tenant; provided, however, that Tenant shall have the right to contest the validity or amount of any lien or claimed lien, upon giving to Landlord a letter executed by Tenant assuring that the lien or claimed lien will be paid, when and to the extent that the lien is finally determined to be valid and owing. Tenant's right, however, to contest these liens shall not extend beyond the point where Landlord's title to the Premises could be lost. On final determination of the lien or claim of lien, Tenant will immediately pay any final judgment rendered, with all property costs and charges, and shall have the lien released or judgment satisfied at Tenant's own expense. If Tenant fails to pay the judgment promptly or otherwise fails to prevent any sale, foreclosure, or forfeiture of the Premises because of a lien, Landlord shall have the right, upon five (5) days' written notice to Tenant, to pay or prevent this action, and the amount paid by Landlord shall be immediately due and payable to Landlord, and shall bear interest at the rate of ten percent (10%) per annum from the date of payment by Landlord until repayment by Tenant.

13. ENTRY. Tenant shall permit Landlord or Landlord's agents, representatives, or employees to enter the Premises at all reasonable times and upon reasonable notice to inspect

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the Premises to determine whether Tenant is complying with the terms of this Lease, to show the Premises to prospective purchasers, lenders or tenants, and to do other lawful acts that may be necessary to protect Landlord's interest in the Premises under this Lease or to perform Landlord's duties under this Lease. Landlord may place "For Rent" signs during the last six (6) months of any term.

14. SURRENDER OF PREMISES; HOLDING OVER.

a. On the Termination Date or the end of any extension or renewal of this Lease, Tenant shall promptly surrender and deliver the Premises to Landlord in as good condition as they are now at the date of this Lease,

reasonable wear and tear excepted.

b. At the end of the Term, or any extension, should Tenant hold over for any reason, it is agreed that in the absence of a written agreement to the contrary, that tenancy shall be from month-to-month only and not a renewal of this Lease, nor an extension for any further term. Tenant shall pay Minimum Monthly Rent in an amount equal to one hundred ten percent (110%) of the Minimum Monthly Rent payable immediately prior to the end of the Term or any extension and the month-to-month tenancy shall be subject to every other term, covenant, and condition in this Lease that is consistent with and not contrary to a month-to-month tenancy.

15. INDEMNITY. Tenant agrees to indemnify and defend Landlord from any claims, demands, and causes of action of any nature and any expense incident to the defense, for injury to or death of persons or loss of or damage to property occurring on or about the Premises that grow out of or are connected with Tenant's use and occupation of the Premises or the condition of the Premises, unless such claim arises as a result of Landlord's grossly negligent or willful conduct during the Term.

Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom or for damages to the goods, wares, merchandise, inventory, supplies or other property of Tenant, Tenant's employees, invitees, customers, or any other person in or about the Premises, nor shall Landlord be liable for injury to Tenant's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether the damage or injury results from conditions arising upon the Premises or from other sources or places and regardless whether the cause of such damage or injury or the means or repairing the same is inaccessible to Tenant.

16. INSURANCE.

a. Tenant agrees at all times during the Term and during any extension, to maintain in force, at Tenant's sole cost and expense, insurance on the building and improvements that may be built or placed on the Premises, against the hazard of fire, with all standard extended coverage, including vandalism and malicious mischief, in an amount equal to their full insurable value, with a replacement cost endorsement, including inflation guard protection. The deductible shall not exceed \$5,000 per occurrence for which Tenant shall be liable in the event of an insured loss. Tenant further agrees that once every two (2) years during the Term and any extension, Tenant will review with the insurance companies issuing the insurance the costs of building, labor and materials, and other pertinent factors to determine whether the stipulated value of the building and improvements stated in the insurance is adequate. If the stipulated value is determined by the insurance companies to be inadequate, Tenant agrees to immediately adjust the aggregate amount of the insurance to the extent

required to make the stipulated value adequate. Landlord agrees to cooperate fully with Tenant in making this determination for stipulated value. Tenant agrees to give prompt, written notification to Landlord as to the results of these periodic determinations for stipulated value. In absence of notification of an insurance review by Tenant by December 31 of every second year of the Term and each Extended Term, Landlord may cause a review to be completed. Tenant agrees that if the buildings and improvements on the Premises are destroyed and the proceeds of the insurance policy and any policy carried by Landlord amount to less than the cost of rebuilding the buildings and improvements, Tenant will advance and pay any sum, which along with the insurance proceeds, is necessary to meet the cost of rebuilding. No work or repair or reconstruction shall be undertaken until Tenant has delivered to Landlord plans and specifications for the work that are to be prepared by a competent architect, Landlord approves them (which approval will not be unreasonably withheld), and Tenant delivers to Landlord an estimate of the cost of the work to be done in accordance with the plans; the estimate is to be prepared by a competent contractor. If Tenant fails to commence the rebuilding, reconstruction, repair, or restoration of any building or improvement as required under this Lease, Landlord or any beneficiary under any deed of trust covering the Premises, if permitted by the deed of trust, may, but shall not be obligated to, enter the Premises and do whatever may be necessary for the rebuilding, reconstruction, repair, or restoration of any building or improvement as required of Tenant under the terms of this Lease.

b. Tenant agrees to procure and maintain public liability insurance, from a responsible insurance company authorized to do business in California, with a combined single limit of not less than Two Million Dollars (\$2,000,000.00) for injury or death to any person or damage to property and at least Two Million Dollars (\$2,000,000.00) excess umbrella coverage for injury or death or property damage, for any claims, demands, or causes of action of any person arising out of accidents occurring on the Premises during the Term or arising out of Tenant's use, occupancy or maintenance of the Premises. Such insurance shall be on an occurrence basis with an "Additional Insured--Managers or Lessors of Premises Endorsement" and contain the "Amendment of the Pollution Exclusion Endorsement" for damage caused by heat, smoke or fumes from a hostile fire.

c. Tenant shall, in addition, obtain and keep in force during the Term of this Lease a policy or policies in the name of Landlord, with loss payable to Landlord and Lender(s), insuring the loss of the full rental and other charges payable by Tenant to Landlord under this Lease for one (1) year (including all real estate taxes, insurance costs, and any scheduled rental increases). Said insurance shall provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or

replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, property taxes, insurance premium costs and other expenses, if any, otherwise payable by Tenant, for the next twelve (12) month period. Tenant shall be liable for any deductible amount in the event of such loss.

d. Each policy of insurance shall be issued by a responsible insurance company authorized to do business in California, and shall be issued in the names of Landlord, Tenant, and any beneficiary under any deed of trust covering the Premises, if required by the deed of trust, as their respective interests may appear. Tenant shall deliver a duplicate policy and certificate for each insurance policy to Landlord with all relevant endorsements. Each policy of insurance shall be primary and noncontributory with any policies carried by Landlord and, to the extent obtainable, any loss shall be payable notwithstanding any act or negligence of Landlord that might otherwise result in forfeiture of insurance. Each insurance policy shall

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provide that a thirty (30) day notice of cancellation and of any material modification of coverage shall be given to all named insureds. The insurance coverage required under this Section may be carried by Tenant under a blanket policy insuring other locations of Tenant's business, provided that the Premises covered by this Lease are specifically identified as included under that policy. Tenant agrees that upon the failure to insure as provided in this Lease, or to pay the premiums in the insurance, Landlord may contract for the insurance and pay the premiums, and all sums expended by Landlord for the insurance shall be considered additional rent under this Lease and shall be immediately repayable by Tenant.

e. The insurance companies issuing policies under this section shall have a general policyholder's rating of at least "A" and a financial rating of at least Class XIII as rated in the most current available BEST'S KEY RATING GUIDE.

f. At all times during the Term and any extensions of renewals, Tenant agrees to keep and maintain, or cause Tenant's agents, contractors, or subcontractors to keep and maintain, workmen's compensation insurance and other forms of insurance as may from time to time be required by law or may otherwise be necessary to protect Landlord and the Premises from claims of any person who may at any time work on the Premises, whether as a servant, agent, or employee of Tenant or otherwise. This insurance shall be maintained at the expense of Tenant or Tenant's agents, contractors, or subcontractors and not at the expense of Landlord.

g. Landlord agrees that it will tender and turn over to Tenant or to Tenant's insurers the defense of any claims, demands, or suits instituted,

made, or brought against Landlord or against Landlord and Tenant jointly, within the scope of this Section. However, Landlord shall have the right to approve the selection of legal counsel, to the extent that selection is within Tenant's control, which approval shall not be unreasonably withheld or delayed. In addition, Landlord shall retain the right at Landlord's election to have Landlord's own legal counsel participate as co-counsel, to the extent that claims are made that may not be covered by Tenant's insurers.

h. Tenant and Landlord each release the other and waive the entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against, which perils occur in, on, or about the Premises, whether due to the negligence of Landlord or Tenant or their agents, employees, contractors, or invitees. Tenant and Landlord shall, upon obtaining the required policies of insurance, give notice to the insurance carriers that this mutual waiver of subrogation is in this Lease.

17. TRADE FIXTURES.

a. Tenant shall have the right, at any time and from time to time during the Term and any renewals or extensions, at Tenant's sole cost and expense, to install and affix on the Premises items for use in Tenant's trade or business, which Tenant, in Tenant's sole discretion, deems advisable (collectively Trade Fixtures). Trade Fixtures installed in the Premises by Tenant shall always remain the property of Tenant and may be removed at the expiration of the Term or any extension, provided that any damage to the Premises caused by the removal of the Trade Fixtures shall be repaired by Tenant, and further provided that Landlord shall have the right to keep any Trade Fixtures or to require Tenant to remove any Trade Fixtures that Tenant might otherwise elect to abandon.

b. Any Trade Fixtures that are not removed from the Premises by Tenant within thirty (30) days after the Termination Date shall be deemed abandoned by Tenant and shall

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automatically become the property of Landlord as owner of the real property to which they are affixed.

18. SIGNS. Tenant may maintain on the exterior of the Premises any sign, awning, canopy, marquee or other advertising, provided that such sign, awning, canopy, marquee or advertising complies with all applicable city and county ordinances governing the placement of signs and advertising. Thirty (30) days after the Termination Date, all of the items mentioned in this section that are not removed from the Premises may, without damage or liability, be destroyed by the Landlord.

19. DAMAGE AND DESTRUCTION.

a. If the building or other improvements constructed on the Premises are damaged or destroyed, whether partially or entirely, from a risk covered by insurance required by this Lease, Tenant, at Tenant's own cost and expense, but utilizing the proceeds of insurance, if any, including any insurance carried by Landlord to the extent available, shall repair, restore, or reconstruct the damaged or destroyed building and other improvements so that the condition and quality of the new building and other improvements shall be as near as reasonably possible to the condition and quality immediately prior to the damage or destruction. Damage to or destruction of any portion of the building, fixtures, or other improvements on the Premises by fire, the elements, or any other cause shall not terminate this Lease or entitle Tenant to surrender the Premises or otherwise affect the respective obligations of the parties, any present or future law to the contrary notwithstanding.

b. If, during the Term or any Extended Term, the Premises are totally or partially destroyed from a risk not covered by the insurance required by this Lease, rendering the Premises totally or partially inaccessible or unusable, Tenant shall restore the Premises to substantially the same condition as they were in immediately before destruction. Such destruction shall not terminate this Lease. If the existing laws do not permit the restoration, either party can terminate this Lease immediately by giving notice to the other party.

If the cost of restoration exceeds \$50,000, Tenant can elect to terminate this Lease by giving notice to Landlord within fifteen (15) days after determining the restoration cost. If Tenant elects to terminate this Lease, Landlord, within thirty (30) days after receiving Tenant's notice to terminate, can elect to pay to Tenant, at the time Landlord notifies Tenant of its election, the difference between \$50,000 and the actual cost of restoration, in which case Tenant shall restore the Premises. On Landlord's making its election to contribute, each party shall deposit immediately the amount of its contribution with the insurance trustee provided for in subparagraph d. If the destruction does not exceed \$50,000, Tenant shall immediately proceed with the restoration.

If Tenant elects to terminate this Lease and Landlord does not elect to contribute toward the cost of restoration as provided in this paragraph, this Lease shall terminate.

c. If, during the Term or any Extended Term, the Premises are destroyed by a risk covered by the insurance required by this Lease, and the total amount of loss does not exceed \$100,000, Tenant shall make the loss adjustment with the insurance company insuring the loss. The proceeds shall be paid directly to Tenant for the sole purpose of making the restoration of the Premises.

d. If, during the Term or any Extended Term, the Premises are destroyed from a risk covered by the insurance required by this Lease, and the total amount of loss exceeds

\$100,000, Tenant shall make the loss adjustment with the insurance company insuring the loss and on receipt of the proceeds shall immediately pay them to First American Title insurance Company or other mutually acceptable stakeholder ("Insurance trustee").

If the Premises are destroyed from a risk not covered by the insurance required by this Lease, and Tenant has the obligation to restore the Premises, both parties shall deposit with the insurance trustee their respective contributions toward the cost of restoration. All sums deposited with the insurance trustee shall be held for the following purposes and the insurance trustee shall have the following powers and duties:

The sums shall be paid in installments by the insurance trustee to the contractor retained by Tenant as construction progresses, for payment of the cost of restoration. A ten percent (10%) retention fund shall be established that will be paid to the contractor on completion of restoration, payment of all costs, expiration of all applicable lien periods, and proof that the Premises are free of all mechanics' liens and lienable claims.

Payments shall be made on presentation of certificates or vouchers from the architect or engineer retained by Tenant showing the amount due. If the insurance trustee, in its reasonable discretion, determines that the certificates or vouchers are being improperly approved by the architect or engineer retained by Tenant, the insurance trustee shall have the right to appoint an architect or an engineer to supervise construction and to make payments on certificates or vouchers approved by the architect or engineer retained by the insurance trustee. The reasonable expense and charges of the architect or engineer retained by the insurance trustee shall be paid by the insurance trustee out of the trust fund.

If the sums held by the insurance trustee are not sufficient to pay the actual cost of restoration, Tenant shall deposit the amount of the deficiency with the insurance trustee within ten (10) days after request by the insurance trustee indicating the amount of the deficiency.

Any sums not disbursed by the insurance trustee after restoration has been completed and final payment has been made to Tenant's contractor shall be delivered within fifteen (15) days (after demand made by either party on the insurance trustee, with a copy to Landlord's lender), by the insurance trustee to Landlord's lender and shall be applied by Landlord's lender to reduce the loan.

Any undisbursed funds after compliance with the provisions of this paragraph shall be delivered to landlord to the extent of Landlord's contribution to the fund, and the balance, if any, shall be paid to Tenant.

All actual costs and charges of the insurance trustee shall be paid by Tenant.

If the insurance trustee resigns or for any reason is unwilling to act or continue to act, Landlord shall substitute a new trustee in the place of the designated insurance trustee. The new trustee must be an institutional lender or title company doing business in the City of San Luis Obispo or the City of Santa Maria, California.

Both parties shall promptly execute all documents and perform all acts reasonably required by the insurance trustee to perform its obligation under this paragraph.

e. If the Premises are damaged or destroyed in whole or in part, Tenant shall proceed with diligence to have plans and specifications prepared and obtain approval by Landlord, which approval shall not be unreasonably withheld, to commence rebuilding,

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reconstruction, or restoration as promptly as possible after the occurrence of the event causing the damage or destruction, and thereafter to diligently complete the work. If Tenant does not proceed with diligence and does not diligently finish the work, Landlord or any beneficiary under any deed of trust covering the Premises, if permitted by the deed of trust, may, but shall not be obligated to, on thirty (30) days prior written notice, enter the Premises and do whatever may be necessary for the rebuilding, recordation, repair, or restoration of any building or improvements damaged or destroyed.

(a) Regardless of any contrary provisions in this Lease, if the building or other improvements to be constructed on the Premises or any substitute are damaged or destroyed by any cause to the extent of more than twenty-five percent (25%) of its insurable value during the last one (1) year of the Term or any extension, Tenant may, at Tenant's sole option, terminate this Lease within ninety (90) days of the damage or destruction by giving written notice to Landlord. In the event of termination, Tenant shall pay to Landlord all insurance proceeds, if any, received by Tenant as a result of the damage or destruction to the extent allocable to the building or other improvements owned by Landlord.

20. CONDEMNATION.

a. If, during the Term or any renewal or extension, the whole of the Premises shall be taken pursuant to any condemnation proceeding, this Lease shall terminate as of 12:01 a.m. of the date that actual physical

possession of the Premises is taken, and after that, both Landlord and Tenant shall be released from all obligations under this Lease.

b. If, during the Term or any renewal or extension, only a part of the Premises is taken pursuant to any condemnation proceeding and the remaining portion is not suitable or adequate for the purposes for which Tenant was using the Premises prior to the taking, or if by reason of any law or ordinance the use of the Premises for the purposes specified in this Lease shall become unlawful, then and after the taking or after the occurrence of other described events, Tenant shall have the option to terminate, and the option can be exercised only after the taking or after the occurrence of other described events by Tenant giving ten (10) days' written notice to Landlord, and rent shall be paid only to the time when Tenant surrenders possession of the Premises. Without limiting the generality of the previous provision, it is agreed that in the event of a partial taking of the Premises pursuant to any condemnation proceeding, if the number of square feet of floor area in the portion of the buildings located on the Premises remaining after the taking is less than seventy-five percent (75%) of the number of square feet of floor area at the commencement of the Term, Tenant shall, after the taking, have the option to terminate this Lease on ten (10) days' written notice to Landlord, and rent shall be paid only to the time when Tenant surrenders possession of the Premises.

c. If only a part of the Premises is taken pursuant to any condemnation proceeding under circumstances that Tenant does not have the option to terminate this Lease as provided in this Section, or having the option to terminate, Tenant elects not to terminate, then Landlord shall at Landlord's expense promptly proceed to restore the remainder of the Premises to a self-contained architectural unit, and the Minimum Monthly Rent payable shall be reduced effective the date of the taking to an amount that shall be in the same proportion to Minimum Monthly Rent payable prior to the taking, as the number of square feet of floor area remaining after the taking bears to the number of square feet of floor area immediately prior to the taking.

d. If the whole or any part of the Premises are taken pursuant to any condemnation proceeding, then Landlord shall be entitled to the entirety of any condemnation award except (1) that portion allocable to Tenant's unsalvageable trade fixtures, or if Tenant

elects to remove Tenant's trade fixtures, a sum for the reasonable removal and relocation costs not to exceed the undepreciated value of such fixtures as reflected in Tenant's most recent federal income tax return; (2) Tenant's relocation costs; (3) Tenant's loss of goodwill excluding any "bonus value" based on the actual rent reserved under the Lease to its fair rental value as of the date of condemnation; and (4) the undepreciated percentage of the lesser of (a) actual cost of the tenant improvements completed at the

inception of this Lease, or (b) the increase in value of Landlord's Premises as a result of Tenant's tenant improvements. As an example of subparagraph (4), if Tenant has invested \$100,000 in tenant improvements and has depreciated 50% of those improvements, and the value of the Premises has been increased by \$50,000 as a result of Tenant's improvements; then Tenant would be entitled to 50% times \$50,000 (the lesser of the increase in value of the Premises or cost of tenant improvements) as and for its portion of a condemnation award. The value of Tenant's tenant improvements in the Premises shall be determined as of the date of the condemnation award.

e. In the event the adjoining property to the Premises on which Tenant has constructed a parking lot is condemned in its entirety, then Tenant, at Tenant's election, may terminate this Lease upon paying Landlord twelve (12) monthly rental payments at the then current Minimum Monthly Rent, in advance, concurrently with the delivery of a 30-day notice terminating the Lease.

21. ASSIGNMENT AND SUBLETTING.

a. Except as provided in Section 21(b), Tenant shall not assign this Lease without the prior written consent of Landlord, which shall not be unreasonably withheld, provided that subsequent to any assignment Tenant shall remain primarily liable for the rental to be paid under this Lease and the performance of all terms and conditions of this Lease. In evaluating whether or not to provide consent to a proposed assignment or sublease, Tenant, at a minimum, shall provide to Landlord a copy of the proposed assignment or sublease, a current financial statement from the proposed subtenant/assignee, a statement of intended use by the proposed assignee/subtenant, and such other information as may be reasonably requested by Landlord in evaluating the proposed assignment or sublease. Landlord shall be entitled to condition his consent on the agreement of Tenant to share equally any increase in rent over the rent stated in this Lease for the duration of the proposed assignment or sublease.

b. However, Tenant may assign this Lease without Landlord's written consent if the assignment is made

(i) to a successor corporation into which or with which Tenant is merged or consolidated in accordance with applicable statutory provisions for the merger or consolidation of corporations,

(ii) to a wholly-owned subsidiary of Tenant, or

(iii) to a corporation to which Tenant shall sell all or substantially all of Tenant's assets; and the liabilities of the corporations participating in the merger or consolidation or of the transferor corporation must be assumed by the corporation surviving the merger or created by the consolidation or by the transferee corporation, in the event of a transfer to a wholly-owned subsidiary or a sale of all or substantially all assets, and that corporation (except in the case of a wholly-owned subsidiary) must have a net worth at least equal to the

net worth of Tenant at the time of execution of this Lease. Upon delivery to Landlord, by a successor corporation to which this Lease is assigned or transferred, of the agreement of the corporation to be bound by the terms, covenants,

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and conditions of this Lease to be performed by Tenant after the date of the assignment or transfer and documentation satisfactory to Landlord demonstrating net worth and operation income, Tenant shall be released and discharged from all obligations later arising under this Lease, except where the transfer is to a wholly-owned subsidiary of Tenant.

c. In the event Tenant shall assign or sublet the Premises or request the consent of Landlord to any assignment or subletting, or if Tenant shall request the consent of Landlord for any act Tenant proposes to do, then Tenant shall pay Landlord's reasonable attorneys' fees and consultants' fees in connection with evaluating such requests and/or proposed sublease or assignment.

22. DEFAULT. Any of the following events or occurrences shall constitute a material breach of this Lease by Tenant and, after the expiration of any applicable grace period, shall constitute an event of default (each an Event of Default):

a. The failure by Tenant to pay any amount in full when it is due under the Lease;

b. The failure by Tenant to perform any obligation under this Lease, which by its nature Tenant has no capacity to cure;

c. The failure by Tenant to perform any other non-monetary obligation under this Lease, if the failure has continued for a period of thirty (30) days after Landlord demands in writing that Tenant cure the failure. If, however, by its nature the failure cannot be cured within thirty (30) days, Tenant may have a longer period as is necessary to cure the failure, but this is conditioned upon Tenant's promptly commencing to cure within the thirty (30) day period and thereafter diligently completing the cure. Tenant shall indemnify and defend Landlord against any liability, claim, damage, loss or penalty that may be threatened or may in fact arise from that failure during the period the failure is uncured;

d. Any of the following: A general assignment by Tenant for the benefit of Tenant's creditors; any voluntary filing, petition, or application by Tenant under any law relating to insolvency or bankruptcy, whether for a declaration of bankruptcy, a reorganization, an arrangement, or otherwise; the abandonment, vacation, or surrender of the Premises by Tenant without Landlord's prior written consent; or the dispossession of Tenant from the Premises (other than by Landlord) by process of law or otherwise;

e. The appointment of a trustee or receiver to take possession of all or substantially all of Tenant's assets; or the attachment, execution or other judicial seizure of all or substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, unless the appointment or attachment, execution, or seizure is discharged within thirty (30) days; or the involuntary filing against Tenant, or any general partner of Tenant if Tenant is a partnership, of

(i) a petition to have Tenant, or any partner of Tenant if Tenant is a partnership, declared bankrupt, or

(ii) a petition for reorganization or arrangement of Tenant under any law relating to insolvency or bankruptcy, unless, in the case of any involuntary filing, it is dismissed within sixty (60) days;

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f. The abandonment of the Premises by Tenant.

23. REMEDIES. Upon the occurrence of an Event of Default, Landlord, in addition to any other rights or remedies available to Landlord at law or in equity, shall have the right to

a. terminate this Lease and all rights of Tenant under this Lease by giving Tenant written notice that this Lease is terminated, in which case Landlord may recover from Tenant the aggregate sum of

(i) the worth at the time of award of any unpaid rent that had been earned at the time of termination;

(ii) the worth at the time of award of the amount by which (A) the unpaid rent that would have been earned after termination until the time of award exceeds (B) the amount of the rental loss, if any, as Tenant affirmatively proves could have been reasonably avoided;

(iii) the worth at the time of award of the amount by which (A) the unpaid rent for the balance of the term after the time of award exceeds (B) the amount of rental loss, if any, as Tenant affirmatively proves could be reasonably avoided;

(iv) any other amount necessary to compensate Landlord for all the detriment caused by Tenant's failure to perform Tenant's obligations or that, in the ordinary course of things, would be likely to result from Tenant's failure; and

(v) all other amounts in addition to or in lieu of those previously set out as may be permitted from time to time by applicable California law.

As used in clauses (i) and (ii) of Section 23(a), the worth at the time of award is computed by allowing interest at the rate of ten percent (10%) per annum. As used in clause (iii) of Section 23(a), the worth at the time of award is computed by discounting that amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). As used in this Section, the term rent shall include Minimum Monthly Rent and any other payments required by Tenant under this Lease.

b. continue this Lease, and from time to time, without terminating this Lease either

(i) recover all rent and other amounts payable as they become due or

(ii) relet the Premises or any part on behalf of Tenant on terms and at the rent that Landlord, in Landlord's sole discretion, may deem advisable, all with the right to make alterations and repairs to the Premises, at Tenant's cost, and apply the proceeds of reletting to the rent and other amounts payable by Tenant. To the extent that the rent and other amounts payable by Tenant under this Lease exceed the amount of the proceeds from reletting, the Landlord may recover the excess from Tenant as and when due.

c. Upon the occurrence of an Event of Default, Landlord shall also have the right, with or without terminating this Lease, to re-enter the Premises and remove all persons and property from the Premises. Landlord may store the property removed from the Premises in a public warehouse or elsewhere at the expense and for the account of Tenant.

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d. None of the following remedial actions, alone or in combination, shall be construed as an election by Landlord to terminate this Lease unless Landlord has in fact given Tenant written notice that this Lease is terminated or unless a court of competent jurisdiction decrees termination of this Lease: any act by Landlord to maintain or preserve the Premises; any efforts by Landlord to relet the Premises; any re-entry, repossession, or reletting of the Premises; or any re-entry, repossession, or reletting of the Premises by Landlord pursuant to this Section. If Landlord takes any of the previous remedial actions without terminating this Lease, Landlord may nevertheless at any later time terminate this Lease by written notice to Tenant.

e. If Landlord relets the Premises, Landlord shall apply the revenue from the reletting as follows: first, to the payment of any indebtedness other than rent due from Tenant to Landlord; second, to the payment of any cost of reletting, including without limitation finder's fees and leasing commissions; third, to the payment of the cost of any maintenance and repairs to the Premises; and fourth, to the payment of rent and other

amounts due and unpaid under this Lease. Landlord shall hold and apply the residue, if any, to payment of future amounts payable under this Lease as the same may become due, and shall be entitled to retain the eventual balance with no liability to Tenant. If the revenue from reletting during any month, after application pursuant to the previous provisions, is less than the sum of (i) Landlord's expenditures for the Premises during that month and (ii) the amounts due from Tenant during that month, Tenant shall pay the deficiency to Landlord immediately upon demand.

f. After the occurrence of an Event of Default, Landlord, in addition to or in lieu of exercising other remedies, may, but without any obligation to do so, cure the breach underlying the Event of Default for the account and at the expense of Tenant. However, Landlord must by prior notice first allow Tenant a reasonable opportunity to cure, except in cases of emergency, where Landlord may proceed without prior notice to Tenant. Tenant shall, upon demand, immediately reimburse Landlord for all costs, including costs of settlements, defense, court costs, and attorney fees, that Landlord may incur in the course of any cure.

g. No security or guaranty for the performance of Tenant's obligations that Landlord may now or later hold shall in any way constitute a bar or defense to any action initiated by Landlord for unlawful detainer or for the recovery of the Premises, for enforcement of any obligation of Tenant, or for the recovery of damages caused by a breach of this Lease by Tenant or by an Event of Default.

h. Except where this is inconsistent with or contrary to any provisions of this Lease, no right or remedy conferred upon or reserved to either party is intended to be exclusive of any other right or remedy, or any right or remedy given or now or later existing at law or in equity or by statute. Except to the extent that either party may have otherwise agreed in writing, no waiver by a party of any violation or nonperformance by the other party of any obligations, agreements, or covenants under this Lease shall be deemed to be a waiver of any subsequent violation or nonperformance of the same or any other covenant, agreement, or obligation, nor shall any forbearance by either party to exercise a remedy for any violation or nonperformance by the other party be deemed a waiver by that party of the rights or remedies with respect to that violation or nonperformance.

24. LATE CHARGE. Tenant acknowledges that Tenant's failure to pay any installment of the Minimum Monthly Rent, or any other amounts due under this Lease as and when due may cause Landlord to incur costs not contemplated by Landlord when entering into this Lease, the exact nature and amount of which would be extremely difficult and impracticable to ascertain. Accordingly, if any installment of the Minimum Monthly Rent or any other amount due under the Lease is not received by Landlord as and when due, then, without any notice to Tenant, Tenant

shall pay to Landlord an amount equal to six percent (6%) of the past due amount, which the parties agree represents a fair and reasonable estimate of the costs incurred by Landlord as a result of the late payment by Tenant.

25. DEFAULT INTEREST. If Tenant fails to pay any amount due under this Lease as and when due, that amount shall bear interest at the maximum rate then allowable by law from the due date until paid.

26. WAIVER OF BREACH. Any express or implied waiver of a breach of any term of this Lease shall not constitute a waiver of any further breach of the same or other term of this Lease; and the acceptance of rent shall not constitute a waiver of any breach of any term of this Lease, except as to the payment of rent accepted.

27. ESTOPPEL CERTIFICATES. At any time, with at least fifteen (15) days' prior notice by Landlord, Tenant shall execute, acknowledge, and deliver to Landlord a certificate certifying:

- a. the Commencement Date and the Term,
- b. the amount of the Minimum Monthly Rent,
- c. the dates to which rent and other charges have been paid,

d. that this Lease is unmodified and in full force or, if there have been modifications, that this Lease is in full force, as modified, and stating the date and nature of each modification,

e. that no notice has been received by Tenant of any default by Tenant that has not been cured, except, if any exist, those defaults must be specified in the certificate, and Tenant must certify that no event has occurred that, but for the expiration of the applicable time period or the giving of notice or both, would constitute an Event of Default under this Lease,

f. that no default of Landlord is claimed by Tenant, except, if any, those defaults must be specified in the certificate, and

- g. other matters as may be reasonably requested by Landlord.

An estoppel certificate requested pursuant to this section may be relied on by prospective purchasers, mortgagees, or beneficiaries under any deed of trust on the Premises or any part of it.

28. ATTORNEY FEES. If any action at law or in equity is brought to recover any rent or other sums under this Lease, or for or on account of any breach of or to enforce or interpret any of the covenants, terms, or conditions of this Lease, or for the recovery of the possession of the Premises, the prevailing party shall be entitled to recover from the other party as part of prevailing party's costs reasonable attorney fees, the

amount of which shall be fixed by the court and shall be made a part of any judgment rendered.

29. HAZARDOUS SUBSTANCE CONDITIONS. If a Hazardous Substance condition occurs, unless Tenant is legally responsible therefor (in which case Tenant shall make the investigation and remediation thereof required by applicable law and this Lease shall continue in full force and effect, but subject to Landlord's rights under this Paragraph 29), Landlord may, at Landlord's option, either (i) investigate and remediate such Hazardous Substance condition, if required, as

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soon as reasonably possible at Landlord's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly base rent or \$50,000, whichever is greater, give written notice to Tenant within thirty (30) days after receipt by Landlord of knowledge of the occurrence of such Hazardous Substance condition of Landlord's desire to terminate this Lease as of the date sixty (60) days following the giving of such notice. In the event Landlord elects to give such notice of Landlord's intention to terminate this Lease, Tenant shall have the right within the (10) days after the receipt of such notice to give written notice to Landlord of Tenant's commitment to pay for the investigation and remediation of such Hazardous Substance condition totally at Tenant's expense and without reimbursement from Landlord except to the extent of an amount equal to twelve (12) times the then monthly Base Rent or \$50,000, whichever is greater. Tenant shall provide Landlord with the funds required of Tenant or satisfactory assurance thereof within thirty (30) days following Tenant's said commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such investigation and remediation as soon as reasonably possible and the required funds are available. If Tenant does not give such notice and provide the required funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Landlord's notice of termination. If a Hazardous Substance condition occurs for which Tenant is not legally responsible, there shall be abatement of Tenant's obligations under this Lease for a period of not to exceed twelve (12) months while Landlord remediates the condition.

30. SECURITY DEPOSIT. On execution of this Lease, Tenant shall deposit with Landlord \$5,395.00 as a security deposit for the performance by Tenant of the provisions of this Lease. If Tenant is in default, Landlord can use the security deposit, or any portion of it, to cure the default or to compensate Landlord for all damage sustained by Landlord resulting from Tenant's default. Tenant shall immediately on demand pay to Landlord a sum equal to the portion of the security deposit expended or applied by Landlord as provided in this paragraph so as to maintain the security deposit in the sum initially deposited with Landlord. If Tenant is not in default at the expiration or termination of this Lease, Landlord shall return the security

deposit to Tenant. Landlord's obligations with respect to the security deposit are those of a debtor and not a trustee. Landlord can maintain the security deposit separate and apart from Landlord's general funds or can commingle the security deposit with Landlord's general and other funds. Landlord shall not be required to pay Tenant interest on the security deposit.

31. WARRANTY OF AUTHORITY. The undersigned warrant and represent to Landlord that they are duly authorized corporate officers of Tenant, and that they are acting within the scope of their authority to bind Tenant to the provisions in this Lease without any further action, approval or consent of the Board of Directors of Tenant.

32. NOTICES. Any notice or other communication pursuant to this Lease shall be in writing and shall be deemed to be properly given if delivered, mailed, or sent by wire, facsimile transmission or other telegraphic communication in the manner provided in this paragraph, to the following persons:

Heritage Oaks Bank
545 12th Street
Paso Robles, CA
FAX: (805)239-5204
(805)239-5200 - phone

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EXHIBIT 99.1

Richard C. Blake
5 Alta Mira Lane
San Luis Obispo, CA 93401
(805) 597-7517 (work phone)

Either party may change the party's address for these purposes by giving written notice of the change to the other party in the manner provided in this section. If sent by mail, any notice, delivery, or other communication shall be effective or deemed to have been given forty-eight (48) hours after it has been deposited in the United States mail, duly registered or certified, with postage prepaid, and addressed as set forth above. Notices sent by wire, telegraph or facsimile transmission shall be deemed received on the next business day after transmission. Facsimile machines used for tax notice must generate a "Transmission Record" stating the telephone number of the receiving fax, number of pages sent out, date and time of transmission and indication of any transmission errors.

33. HEIRS AND SUCCESSORS. This Lease shall be binding on and shall inure to the benefit of the heirs, executors, administrators, successors, and assigns of Landlord and Tenant.

34. PARTIAL INVALIDITY. Should any provision of this Lease be held by a court of competent jurisdiction to be either invalid or unenforceable, the remaining provisions of this Lease shall remain in effect, unimpaired by the holding.

35. ENTIRE AGREEMENT. This instrument constitutes the sole agreement between Landlord and Tenant respecting the Premises, the leasing of the Premises to Tenant, and the specified lease term, and correctly sets forth the obligations of Landlord and Tenant. Any agreement or representations respecting the Premises or their leasing by Landlord to Tenant not expressly set forth in this instrument are void.

36. TIME OF ESSENCE. Time is of the essence in this Lease.

37. RENT. All monetary obligations of Tenant to Landlord under the Lease, including but not limited to the Minimum Monthly Rent, tax reimbursements and insurance reimbursements, shall be deemed rent.

38. AMENDMENTS. This Lease may be modified only in writing and only if signed by the parties at the time of the modification.

39. SUBORDINATION.

a. This Lease shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation for security now or later placed upon the Premises and to any advances made on the security of it or Landlord's interest in it, and to all renewals, modifications, consolidations, replacements, and extensions of it. However, if any mortgagee, trustee, or ground Landlord elects to have this Lease prior to the lien of its mortgage or deed of trust or prior to its ground lease, and gives notice of that to Tenant, this Lease shall be deemed prior to the mortgage, deed of trust, or ground lease, whether this Lease is dated prior or subsequent to the date of the mortgage, deed of trust, or ground lease, or the date of recording of it. If any mortgage or deed of trust to which this Lease is subordinate is foreclosed or a deed in lieu of foreclosure is given to the mortgagee or beneficiary, Tenant shall attorn to the purchaser at the foreclosure sale or to the grantee under the deed in lieu of foreclosure. If any ground lease to which this Lease is subordinate is terminated, Tenant shall attorn to the ground lessor. Tenant agrees to execute any documents, in form and substance reasonably acceptable to Tenant,

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required to for the subordination, to make this Lease prior to the lien of any mortgage or deed of trust or ground lease, or to evidence the attornment.

b. If any mortgage or deed of trust to which this Lease is subordinate is foreclosed or a deed in lieu of foreclosure is given to the mortgagee or beneficiary, or if any ground lease to which this Lease is

subordinate is terminated, this Lease shall not be barred, terminated, cut off, or foreclosed. Neither shall the rights and possession of Tenant under this Lease be disturbed, if Tenant is not then in default in the payment of rental and other sums due under this Lease or otherwise in default under the terms of this Lease, and if Tenant attorns to the purchaser, grantee, or ground lessor as provided in Section 38(a) or, if requested, enters into a new lease for the balance of the term of this Lease on the same terms and provisions in this Lease. Tenant's covenant under Section 38(a) to subordinate this Lease to any ground lease, mortgage, deed of trust, or other hypothecation later executed is conditioned on each senior instrument containing the commitments specified in this subsection.

40. RIGHT OF FIRST REFUSAL. If Landlord determines to sell the Premises, Landlord shall notify Tenant of the terms on which Landlord will be willing to sell.

If Tenant, within ten (10) business days after receipt of Landlord's notice, indicates in writing its agreement to purchase the Premises on the terms stated in Landlord's notice, Landlord shall sell and convey the Premises to Tenant on the terms stated in the notice. If Tenant does not indicate its agreement within ten (10) business days, Landlord thereafter shall have the right to sell and convey the Premises to a third party on the same terms stated in the notice. If Landlord does not sell and convey the Premises within one hundred eighty (180) days, any further transaction shall be deemed a new determination by Landlord to sell and convey the Premises and the provisions of this paragraph shall be applicable.

If Tenant purchases the Premises, this Lease shall terminate on the date title vests in Tenant, and Landlord shall remit to Tenant all prepaid and unearned rent.

Tenant's right of first refusal shall not apply to a transfer between any of those persons who constitute Landlord and the blood relatives of any of those persons, either outright or in trust, or to a legal entity (i.e., partnership, corporation, trust, or like entity) when the majority interest is owned by all or some of those persons who constitute Landlord.

41. MERGER. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation of the Lease, or a termination by Landlord, shall not work a merger, and shall, at the option of the Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to a Landlord of any of the subtenancies.

42. LANDLORD'S ENTRY. Any time that Landlord is entitled to enter the Premises under the terms of this Lease, such entry shall be on a minimum of twenty-four (24) hours' prior notice. Landlord shall not maintain a key to the Premises, except that during the last six (6) months of the Term or any Extended Term of this Lease, Tenant shall allow prospective tenants or purchasers, agents, contractors, consultants to inspect and have reasonable access to the Premises to evaluate the Premises for rental or purchase on all business days and one day per weekend between the hours of 8:00 a.m. and 6:00

p.m. If Tenant fails to provide such access, Tenant shall provided a key to Landlord.

43. GOVERNING LAW. This Lease shall be governed by and construed in accordance with California law.

The parties have executed this Lease as of the date first above written.

TENANT:

LANDLORD:

HERITAGE OAKS BANK

By: /s/ [ILLEGIBLE]

/s/ Richard C. Blake

President

Richard C. Blake

By: /s/ [ILLEGIBLE]

Chief Financial Officer

EXHIBIT "A"

Parcel A of Parcel Map No. 5195, in the City of Santa Maria, County of Santa Barbara, State of California, as per Map recorded in Book 17, Page 29 of Parcel Maps, in the Office of the County Recorder of said County; subject to all matters shown of record.

SERVICE AGREEMENT

THIS SERVICE AGREEMENT is made this ___ day of _____, 199___, by and between Heritage Oaks Bank ("the Financial Institution" or "FI") and Online Resources & Communications Corporation ("Online Resources").

RECITALS:

- A. Online Resources has developed and operates a system which enables consumer and small business customers of financial institutions to initiate banking, bill paying, and certain other financial services through the use of proprietary technology links consumers to their financial institution and which presents certain information through remote consumer devices such as personal computers and screen-based and standard telephones.
- B. FI desires to retain Online Resources for the purpose of providing financial services on behalf of FI for the benefit of FI's customers.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, the parties, intending to be bound, mutually agree as follows:

1. DEFINITIONS

As used in this Agreement, the following terms shall have the respective meanings set forth below:

"Agreement" shall mean this Agreement and all Exhibits attached hereto, as such Agreement and attached Service Description and any of such Exhibits shall be amended from time to time.

"ATM Network" shall mean the electronic banking network which provides its member FIs with telecommunications, card and PIN authorization and data base support, links to networks providing similar functions, and consolidates the processing and settlement of transactions.

"Bank Service" shall mean the combination of account accessibility, fund transfers, account balance inquiry, and transaction summary services exclusive of bill payments described in Exhibit B hereof.

"Billable Account" shall mean a primary bill payment DDA account tied to a single bill payment "merchant list" for the Online\$Link Service; or primary DDA account for the Banking Service excluding Bill Payment.

"Bill Payment Services" shall the bill payment services described in Exhibit B hereof.

"Customer" shall mean an individual or small business depositor of FI maintaining a DDA account.

"Customer Services" shall remain the services provided to Users as summarized in the Service Description, Exhibit B which are the responsibility of FI to provide.

"Designated Online\$Link Services" shall mean the Online\$Link Services selected in Exhibit A and described in Exhibit B.

"DDA Account" shall mean a demand deposit account.

"Functional Requirements Document" shall mean the written document that Online Resources produces to identify the systems and service features to be included in the FI's offering; and any special processing features required by the FI, its processor, or any EFT network that will be involved in the transmission or processing of the transactions.

"Online\$Link Services" shall mean any combination of services including enabling devices, Access\$Link, FI&Link, Content\$Link and Integrated Support Software and Services that are provided to FI's Users through a link to Online\$Link Services.

"Password" shall mean the personal identification code assigned to each User and authorized by Online Resources to enable such User to access and receive services delivered through the electronic banking network including those delivered under the Online\$Link System.

"PC Browser-Based Application" shall mean the commercially available application software that can be used for the purpose of enabling Users to access the Online\$Link System via the Internet or Extranet and receive Online\$Link Services.

"Pilot" shall mean the period following system implementation during which the FI fully tests the service and finalizes the processes, procedures, employee training, and marketing programs prior to making the service generally available to Customers.

"PIN" shall mean the personal identification number assigned to each User and authorized by the ATM network to enable such User to access and receive services delivered through the electronic banking network including those delivered under the Online\$Link System.

"Prime Rate" shall mean the base rate for corporate loans posted by at least 75% of the nation's 30 largest FIs as published in THE WALL STREET JOURNAL.

"User" shall mean a "Customer" who has accessed the Online\$Link System through, PC Browser-Based Applications and uses his assigned PIN or Password to access the Designated Online\$Link Services.

2. BUSINESS RELATIONSHIP

2.1 ONLINE RESOURCES' RESPONSIBILITIES

Online Resources agrees to be solely responsible for providing the Designated Online\$Link Services to FI for the benefit of its Users. The services are set forth in Exhibit A, described in Exhibit B and are subject to the prices set forth in Exhibit C. For items not defined in Exhibit C, Online's then current pricelist will apply.

2.2 FI RESPONSIBILITIES

FI agrees to complete a pre-installation questionnaire within 15 days of receipt of such questionnaire from Online Resources.

FI is further responsible for:

- a. Assigning a product manager to this service;
- b. Ensuring that FI sales and other personnel understand the features and functions of the services, and have an opportunity to participate in FI's pilot programs.

FI agrees to actively market the Designated Online\$Link Service either independently or by participating in one of Online Resources' consumer marketing programs. At a minimum, this includes communicating the product and service features and benefits to the consumer market through regular branch merchandising and Customer communications.

3. GRANT OF LICENSES

3.1 SERVICE MARKS AND TRADEMARKS

While this Agreement is in effect, Online Resources grants to FI a non-exclusive, non-transferable license to use all Online Resources' service marks and trademarks in connection with marketing the Online\$Link Service and in providing Customer Service to Users.

3.2 MARKETING RIGHTS

While this Agreement is in effect, Online Resources grants to FI a non-assignable, non-transferable right to market and distribute the Designated Online\$Link Service to Customers.

Notwithstanding such license, Online Resources reserves the right to offer non-banking electronic services through the Online\$Link System to Users upon prior written approval of FI, which approval shall not be unreasonably withheld.

4. REPRESENTATIONS, WARRANTIES, AND COVENANTS OF ONLINE RESOURCES

In order to induce FI to execute this Agreement, Online Resources represents, warrants, and covenants (in addition to any other covenants contained herein) to FI as follows:

4.1 REQUIREMENT

Online Resources will comply with all network and processor and other requirements and procedures so as to provide the Online\$Link Services to Users.

4.2 FI SERVICE MARKS AND TRADEMARKS

Online Resources will not use any of FI's service marks and trademarks except for the purpose of identifying the Designated Online\$Link Services to Users.

4.3 ADVERTISING, MESSAGING, AND PRODUCT INFORMATION

Online Resources reserves the right to advertise to targeted groups of Users based on an internal analysis of its database with the prior written approval of FI, which approval shall not be unreasonably withheld.

Online Resources agrees it will not disclose User Information including confidential bill payment data and User lists to any third party, unless requested by the User.

4.4 RESEARCH

Online Resources reserves the right to conduct User research as required through the Online\$Link System or internal research group, or through independent third parties.

4.5 CONFIDENTIALITY

Online Resources will maintain the confidentiality of the FI's trade secrets, know-how, procedures, or manuals of which Online Resources acquires knowledge during the term of this Agreement (FI's Confidential Information). Online Resources agrees not to disclose, publish, divulge, or reveal any of the FI's Confidential Information unless required by lawful subpoena. Online Resources shall also maintain the confidentiality of the Users and their account

information. Notwithstanding the foregoing, Online Resources shall have the right to compile information regarding Users' use of the Online\$Link Service, and make such marketing information available for sale, provided such information is not specific to any Users or FI.

4.6 REPRESENTATIONS AND WARRANTIES

Online Resources represents and warrants that it has the exclusive right, title, and interest in and to the Online\$Link Service and the Online\$Link System, and each component thereof, and that distribution of the Online\$Link Services and/or the Online\$Link System, or any portion thereof, to FI as provided herein, is not subject to or violative of any right, title, or interest of any third party to third parties in and to the Online\$Link Service and/or the Online\$Link System.

4.7 YEAR 2000 CERTIFICATION

Online Resources' Year 2000 readiness approach and plans are developed in full accordance with guidelines provided to the industry by the FFIEC. The company is presently pursuing full compliance for Year 2000 issues in accordance with the FFIEC milestones.

5. COVENANTS OF FI

In order to induce Online Resources to execute the Agreement, and in addition to any other covenants contained herein, the FI covenants with Online Resources as follows:

5.1 REQUIREMENTS

FI will continue to comply with all network and processor and other requirements and procedures, and remain responsible for network and processor transaction fees.

5.2 DISCLOSURES

FI will provide Users with all disclosures required under the Electronic Funds Transfer Act and shall cooperate with Online Resources to develop resolution procedures mandated under federal and state banking and consumer protection laws.

5.3 CONFIDENTIALITY

FI will maintain the confidentiality of any of Online Resources' trade secrets, know-how, procedures, or manuals of which FI acquires knowledge during the term of this Agreement ("Online Resources Confidential Information"). FI agrees not to disclose, publish, divulge, or

reveal any of such Online Resources Confidential Information unless required by a lawful subpoena.

5.4 NOTICE AND CORRECTION OF MALFUNCTIONS

FI shall promptly notify Online Resources of any acts or conditions which cause the Online\$Link System to malfunction or which adversely impact the ability of Online Resources to provide the Designated Online\$Link Services. FI agrees to promptly correct any malfunction or such other act or condition and to take whatever action is reasonably required to prevent the same from recurring.

6. DEFAULT

6.1 EVENT OF DEFAULT

An Event of Default shall have occurred if (a) a party hereto shall breach any covenant contained in this Agreement and shall have failed to cure such breach within the greater of (i) 20 business days or (ii) such reasonable length of time required to cure such breach, provided such party is diligently pursuing a cure, in both cases after having received notice from the non-breaching party of the breach; (b) a party hereto shall (i) become subject to any bankruptcy or insolvency proceeding under a Federal or state statute, (ii) become insolvent or subject to direct control by a trustee, receiver or similar authority or (iii) has wound up or liquidated, voluntarily or otherwise.

6.2 RIGHTS UPON AN EVENT OF DEFAULT

If an Event of Default occurs on the part of a party hereunder, the other party shall have the right within 60 days following the occurrence of the Event of Default to terminate this Agreement upon written to the other party.

7. TERM

7.1 INITIAL TERM

The initial term of this Agreement shall expire two years from the date of the signing of this Agreement.

7.2 RENEWALS

The Agreement shall automatically renew for successive two-year terms unless notice of termination is provided by FI or Online no less than 90 days preceding the expiration of any term. Renewal pricing will be provided to FI 120 days prior to automatic renewal date.

7.3 RIGHTS OF TERMINATION

Following termination of this Agreement, either at the end of any term or as a result of an Event of Default on the part of Online Resources, Online Resources shall provide FI in machine-readable format the following files as applicable:

- a. User Files: A list of all Users;
- b. Merchant Link Files: A list of all merchants paid by each User including merchant account numbers and addresses; and
- c. Transaction Schedules: A list of all payments and transfers scheduled by Users following termination.

7.4 EARLY TERMINATION

Termination of this Agreement by FI prior to expiration will cause FI to pay Online Resources a penalty fee equivalent to the cumulative fees that are charged to the FI per month, independent of usage or billable accounts, as set forth in Exhibit C for the remaining term of the Agreement or three months, whichever is greater. FI must notify Online Resources in writing within 30 days of its intent to terminate. The early termination fee is payable in full within 30 days of early termination of this Agreement.

8. MISCELLANEOUS

8.1 NOTICE

Any notice to be given hereunder shall be delivered by hand, including by messenger or overnight courier, or sent by certified or registered mail, return receipt requested, addressed as follows or as designated, in writing, by any party hereto. If to Online Resources:

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Online Resources & Communications Corporation
7600 Colshire Drive, 6th Floor
McLean, VA 22102
Attn: Chief Financial Officer

with a copy to:

Michaels & Wishner, P.C.
1140 Connecticut Avenue, N.W., Suite 900
Washington, D.C. 20036
Attn: Mark J. Wishner, Esq.

If to FI:

Heritage Oaks Bank
545 12th Street
Paso Robles, California 93446

Attn: Larry Ward

with a copy to:

Angela Mitchell
Heritage Oaks Bank

8.2 ASSIGNMENT

FI may not assign any of its interests in, rights, or obligations under this Agreement without the prior written consent of Online Resources, except that any FI which acquires, merges, combines, or consolidates with FI should automatically succeed to all the rights and obligations of FI under this Agreement. Online Resources may not assign its rights or obligations under this Agreement without the prior written consent of FI, provided, however, such consent shall not be required in connection with the acquisition of Online Resources' business. In all cases hereunder, consent will not be unreasonably withheld.

In the event the FI is acquired, merged, combined, or consolidated with a financial institution wishing to offer the Designated Online\$Link Services to Customers whose account access requires a separate technical implementation, the succeeding institution will pay an additional system set-up fee. That fee will be negotiated between Online Resources and the succeeding Financial Institution.

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8.3 ENTIRE AGREEMENT

This Agreement embodies the entire agreement of the parties relating to the subject matter hereof. This Agreement supersedes all prior correspondence, conversation, memorandum and agreements between the parties.

8.4 SUCCESSORS AND ASSIGNS

This Agreement shall bind the successors and assigns of the parties hereto and inure to the benefit of the permitted successors and assigns thereof.

8.5 FORCE MAJEURE

No party shall be liable or held in breach of this Agreement if prevented, hindered, or delayed in the performance or observance of any provision hereof by reason of any act of God, strike, lockout, riot, acts of war, epidemics, government actions, or regulation imposed after the date hereof, judicial order, or other cause beyond such party's reasonable control. Both parties agree that, once executed by both parties, this Agreement shall supersede all other prior agreements between the two parties.

IN WITNESS WHEREOF, the parties have caused this Agreement to be

executed by their duly authorized officers as of the date first above written.

ONLINE RESOURCES & COMMUNICATIONS CORPORATION

By: [Illegible]

Heritage Oaks Bank

By: /s/ Larry Ward, President

12-18-98

EXHIBIT A: DESIGNATED SERVICES CHECKLIST

The items checked below indicate the Designated Online\$Link Services available for the upfront and ongoing prices described in Exhibit C. Additional components of the Online\$Link Service described in Exhibit B are available on an fee basis.

Only one item can be checked per category except where noted.

ENABLING ACCESS DEVICES

Internet Only

CONNECTIVITY VIA ATM NETWORK BETWEEN ONLINE RESOURCES AND FI

Connectivity path exists

TYPES OF END USERS (CHECK ALL THAT APPLY)

Consumer & Small Business

ONLINE\$LINK SERVICE FUNCTIONALITY
Banking & Bill Payment Services

STATEMENT FILE OPTIONS

Online proprietary batch file with transaction & flexible format records

CUSTOMER SERVICE OPTIONS

Online Service bureau--24 x 7

INITIAL PASSWORD OPTIONS

Formula-based

OTHER SUPPORT OPTIONS (CHECK ALL APPLY)

Consumer marketing campaigns

Advertising and product information screens

Training services

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EXHIBIT B: SERVICE DESCRIPTION

ONLINE\$LINK SERVICES

The Online\$Link Service is made up of all the features and service options described in this Exhibit. The DESIGNATED ONLINE\$LINK SERVICES selected in Exhibit A are the service components to be delivered to the Financial Institution as reflected in the FUNCTIONAL REQUIREMENTS DOCUMENT based on the FI Implementation Questionnaire and the ELECTRONIC FUNDS TRANSFER DISCLOSURE FOR RETAIL ACCOUNTS.

ACCOUNT ACCESSIBILITY

Users shall be able to access up to 40 accounts at their financial institution (FI), if their accounts are accessible to Online Resources via the ATM Network, Online's proprietary batch file format or custom quote methods. All accounts shall be established at the FI. At minimum, all Users will have access to their primary checking and savings accounts and possibly an Other account depending on the ATM Network.

The FI sets a profile for each type, determining the activity level that they want to allow or can support. The available activities may vary depending on the Designated Online\$Link Services in Exhibit A. An account can:

- Fund bill payments
- Accept transfers of money into it
- Accept transfers of money out of it

-- Be designated as "view only"

Account information for accounts that cannot be accessed through the ATM NETWORK shall be provided in a batch file format specified by Online Resources. Only accounts that can be accessed through the ATM Network in formats supported by Online Resources can support Online\$Link transactions. Supported formats may be expanded by Online Resources from time to time.

Depending on the Designated Online\$Link Services, Users can access their accounts via the PC Browser-based Application. Upon general availability, access will also be provided via private commercial networks, such as America Online (AOL). Online Resources will support banking and bill payment transactions indicated through other software, such as Microsoft Money and Quicken, and will comply with industry standards as OFX and Gold.

B-1

BILL PAYMENTS

Depending on the Designated Online\$Link Services, Users shall be able to pay any merchant currently on the system and to add merchants to the system. The term "merchant" shall include, but not be limited to, a business, charitable institution, or professional service organization such as a law firm or doctors' group, but shall exclude the Internal Revenue Service, as well as all state and local tax authorities. A merchant shall also include individual payees on the condition that the FI assumes the risk and liability for fraudulent payments to individuals.

- Users shall be able to schedule bill payments up to 364 days in the future.
- Users shall be able to schedule bill payments to occur on a regular basis: weekly, bi-weekly, monthly, semi-monthly, quarterly, semi-annually, or annually for up to 45 years.
- Users shall be able to review, change, and cancel scheduled future or recurring payments up until midnight the day before the transaction is scheduled.

Users who are customers (as opposed to Small Business Customers of the FI) may make an unlimited number of bill payments throughout a given month. Online Resources reserves the right to review accounts with more than 20 bill payments per month to identify Small Business Users.

FUNDS TRANSFERS

If an FI has selected the Banking Service as one of the Designated Online\$Link Services,

- Users shall be able to transfer funds between any of their accounts at the FI that are accessible via the ATM network in

real time.

- Users shall be able to transfer funds between the FI and other designated financial institutions via ACH InterBank transfer.
- Users shall be able to schedule transfers up to 364 days in the future.
- Users shall be able to schedule transfers to occur on a regular basis: weekly, bi-weekly, monthly, semi-monthly, quarterly, semi-annually, or annually for up to 45 years.
- Users shall be able to review, change, and cancel scheduled future or recurring transfers up until midnight the day before the transaction is scheduled.

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ACCOUNT BALANCE INQUIRY

Users shall be able to obtain balance information for designated accounts at the FI, provided that Online Resources can access them through the ATM Network or through batch files provided by the FI to Online Resources in a format approved by Online Resources.

TRANSACTION SUMMARY

- All Users shall be able to obtain a statement of their Online activity, which shall include an itemized list of completed transactions for the past 45 days, scheduled transactions forward through same date next month, and future balances forward through the same date next month.

For FIs using the Banking Service and depending on the Statement File Options selected in the Designated Online\$Link Services,

- Users may be able to obtain interim statement ("Interim Statement") that shall include recent account activity to date (up to 90 items) that is provided by the Financial Institution to Online Resources.
- Users may be able to obtain other extended account information (if supported by FI).
- For a standard Implementation, this information is provided to Online Resources via a proprietary batch statement file. On a custom quote basis, this information can also be passed to Online Resources via a Direct Link with the FI's processor on a real time basis or via non-standard batch file formats.

OPERATING ASSUMPTIONS

Online Resources pulls an initial account balance from the primary DDA Account at the beginning of each end-user session. Online Resources pulls other account balances to support User activity throughout the

session. The FI agrees and guarantees to accept as good all payments confirmed by Online Resources based on that initial balance.

STAND-IN

It is strongly recommended that Online Resources be allowed to provide a limited set of functionality when the FI or network is not available in order to increase the availability of home Banking and Bill Payment Services to Users. Specifications for this option will be defined during Implementation.

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SYSTEM MAINTENANCE AND PROCESSING SUPPORT

Online Resources provides ongoing system maintenance to support the Designated Online\$Link Services. These include batch file transfers, software maintenance, customer and merchant database maintenance and software upgrades.

Each business day Online Resources will make up to two attempts to process an FI's batch files or the activity updates from the Integrated Support Software. If an error on the FI's part requires additional Re-processing Support by Online Resources, Online will be provide it as needed on a fee basis.

CLIENT SERVICES

IMPLEMENTATION AND PROJECT MANAGEMENT SERVICES

Online Resources' Standard Implementation provides for one Financial Institution to receive project management support for the integration of the Designated Online\$Link Services with the FI's information systems.

Financial Institutions of one holding company that use the same ATM Network and Processor ("Connectivity Path") require affiliated FI Implementation services. If FI's of a holding company use different Connectivity Paths to reach Online Resources, then each FI requires a separate Standard Implementation.

- Online Resources will assign an Implementation Project Manager and other Online Resources personnel as required for systems implementation.
- The Implementation Project Manager will provide the ONLINE\$LINK IMPLEMENTATION GUIDE, which describes all of the steps involved in setting up, testing, and launching the service at the FI. It provides guidelines to help the FI establish which of the Designated Online\$Link Service features that FI will offer, provides points of contact at Online Resources and other information the FI needs to start the implementation process, and provides a vehicle for giving Online Resources the information it needs to implement and support the Designated Online\$Link Services.
- The Implementation Project Manager will be responsible for writing the FUNCTIONAL REQUIREMENTS DOCUMENT based on the information contained in the Implementation Questionnaire, which is Appendix B of the IMPLEMENTATION GUIDE. This manager will also work with FI personnel to develop and manage the project plan.

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- Depending on the Designated Online\$Link Services, the Implementation Services may include ATM switch certification, the testing of Connectivity Paths that already exist, and the testing of the FI's compliance with Online's proprietary batch statement specification for transactions and/or flexible format records.
- On a custom basis, the Implementation Service may include the support and testing of statement data received through a Direct Link between Online Resources and the FI or via a batch file in a format different than Online's proprietary specifications.

ACCOUNT MANAGEMENT SERVICES

An Account Manager will be assigned to the FI after the Connectivity Path is established between Online Resources and the FI and after the FI's Pilot has begun. The Account Manager will be responsible for overseeing the marketing implementation process, the FI's Launch, and ongoing service offering. The Account Manager will also be responsible for Online Resources' ongoing relationship with the FI and serve as the primary point of contact for the FI's product and senior management.

TRAINING SERVICES (OPTIONAL)

Online Resources provides optional training services for FIs at its facilities in McLean, Virginia or at the FI's site. Training Services are available on a fee basis.

CUSTOM SERVICE TRAINING

Online Resources provides two days of training to enable FI personnel to:

- Use the Integrated Support Software and service Users
- Resolve any problems that are incidental to Online\$Link System.

BRANCH SALES TRAINING

At the option of the FI, Online Resources will also provide training to enable FI trainers to teach branch personnel how to sell the Designated Online\$Link Services, as well as sales procedures they should follow. FI may elect to have Online Resources train branch personnel directly.

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MARKETING SUPPORT SERVICES

ONLINE\$LINK MARKETING GUIDE

This guide describes the various steps involved in developing and implementing a marketing strategy and plan for the Designated Online\$Link Service. It:

- Contains a sample marketing plan.
- Identifies marketing tasks involved in preparing for the Pilot and Launch phases of implementation.
- Describes how to support and promote the Designated Online\$Link Service within the branches of the financial institution.
- Identifies the various areas of the PC Browser-Based Application, and supporting materials that can be branded, as well as the specific information FIs need to brand those features.
- Reviews the fulfillment process and provides sample templates for sign-up and fulfillment materials in both hard copy and electronic formats.

BRANCH COMMUNICATIONS PACKAGES

Online Resources provides several FI-branded communications packages with camera-ready artwork that include brochures, sign-up forms, PC diskette inserts, statement stuffers, and other customer communications pieces.

MIS REPORTS

Online Resources provides detailed sales and usage reports to assist the FI in monitoring product performance. Additional reports are available on a custom fee basis.

THE ONLINE\$LINK MARKETING WORKSHOP (OPTIONAL)

This optional workshop is a seminar program that guides participating FIs through the planning process by helping them define their marketing objectives, which drives key decisions about pricing, positioning, and promotions.

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SOLICITATION PACKAGE (OPTIONAL)

Online Resources has created a solicitation package that FIs can brand and produce. The campaign includes sign-up forms, newspaper ads, posters, direct mail, outdoor, broadcast (radio and TV), and customer communications pieces, brochures, and statement stuffers.

MARKETING SERVICES (OPTIONAL)

Online Resources will provide marketing services to clients. These services include the creation and production of advertising and promotional materials, either as principal or agent. These services are optional and quoted separately.

DEMO PRODUCTS

FI receives the following demo products:

- The PC Browser-based Application contains a User demonstration.

INTERNET SERVICES

Online Resources provides WEB SITE DESIGN AND HOUSING SERVICES as set forth in the WEB SITE DESIGN AND HOSTING AGREEMENT.

CUSTOMER SERVICES

FI can provide front-line Customer Services through its own call center, or Online Resources can provide Customer Service in the FI's name in a service bureau environment.

FI CUSTOMER SERVICE

The FI is responsible for providing front-line Customer Service through the Online Resources' service bureau. Online Resources' Customer Service Representatives establish and man incoming voice phone lines, receive telephone calls and correspondence from Users, and are responsible for

the following tasks.

CUSTOMER SETUP AND MAINTENANCE

- Process the application and enter customer data into the Integrated Support System

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- Link Users to merchants listed on the sign-up form
- Perform account maintenance by entering changes to the User's account card/PIN/Password information, and merchant information

RESOLUTION OF USER INQUIRIES

Customer Service Representatives are responsible for responding to inquiries in the following categories:

- Banking relationships, e.g., balances and deposits, if the FI is using the Banking Service
- Additional accounts to be linked to the Designated Online\$Link Service
- Pricing of the Designated Online\$Link Service
- Transactional questions, e.g., funds transfers and merchant bill payments
- Navigation through the access devices
- Features of the Designated Online\$Link Service

OTHER REQUESTS OR ISSUES

Customer Services Representatives will answer other requests, such as those for a change of address or cancellation of service, and enter such changes into the Integrated Support System. They will also work with the FI to identify and diagnose any system issues or reported problems.

ONLINE RESOURCES' ADDITIONAL FI AND END USER SUPPORT

Online Resources is responsible for supporting the FI and its Users in the following areas:

- Technical fulfillment of linking end users to their Enabling Access Device
- Merchant relationships including payment inquiries, account updates, and new merchant solicitation

- Equipment and returns
 - Technical support, including PC software setup and related communications issues for the Designated Online\$Link Services
-

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- User error as defined by Regulation E(12 CFR 205 et seq.), in cooperation with FI
- All escalated FI inquiries

HOURS OF OPERATION

Online Resources' service bureau option, operating in the name of the FI, is available 24 hours per day, 7 days a week, with the exception of the following holidays:

- New Years Day
- Memorial Day
- Independence Day
- Labor Day
- Thanksgiving Day
- Christmas Day

As an alternative to the 24 x 7 option, Online Resources can provide Customer Service during standard hours, namely 8:00 AM to 9:00 PM weekdays, 8:00 AM to 5:00 PM on Saturdays and 11:00 AM to 4:00 PM on Sundays with the applicable time zone determined by the location of the FI's corporate office.

Additional FI support calls, including technical customer support, payment inquiries, FI-escalated issues, or other questions or requests can be made to Online Resources' 24 x 7 call center at any time. The call center's ability to provide immediate and final resolution may be dependent on merchants' or FI's hours of operation, further technical, network and/or systems research, end user availability, or other factors.

SERVICE STANDARDS

- User registrations will be processed within 5 business days for online registrations and registration forms and within one business day for batch enrollment registrations.
- Customer Service will process sign-up forms and complete initial merchant links within five business days of the sign-up form date.
- Appropriate hardware, software, and fulfillment materials will be shipped within two business days of receiving the order.

- Customer Service Representatives shall respond to User inquiries as set forth above by the close of business.

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- Online Resources' additional FI and User support will provide call-back assistance in any case in which immediate and final resolution did not occur in the call center (i.e., dependent upon contact with third parties, etc.) no later than the end of the next business day from receipt of call.

LATE CHARGES AND PENALTY GUIDELINES

The parties agree that responsibility for paying any late charges and/or penalties incurred due to a late payment to a merchant shall be as follows:

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REASON FOR LATE PAYMENT	RESPONSIBILITY FOR PAYING LATE CHARGES/PENALTIES		
	ONLINE	FI	USER
<S>	<C>	<C>	<C>
Lost, cannot determine reason	X		
Not sent as scheduled	X		
Sent to wrong location	X		
U.S. Mail delay	X		
Delay by merchant	X		
Failure of FI to maintain database		X	
Intervention by FI		X	
Incorrect entry by FI		X	
Scheduled incorrect number of days before due date			X
Scheduled incorrectly			X
Incorrect account information supplied by User			X

</TABLE>

A late payment to a merchant is defined as a payment that has not arrived at the merchant within the allowable number of days stated on the screen at the time the User scheduled the payment.

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USER BILLING SERVICES

On a fee basis, Online Resources provides the end-user billing services on behalf of the FI for user fees and access devices that are part of the Designated Online\$Link Services.

MONTHLY FEES

At the time a User's application is entered into the Integrated Support System, the FI may elect to have the Integrated Support System automatically establish a recurring monthly payment to cover the User's monthly service fee obligation to the FI. On designated payment dates, Online Resources will then debit the User's account and remit the payment to the FI. If Online Resources schedules a debit and the payment fails due to insufficient funds (NSF), or another reason, FI Customer Service will receive a "reject report" and an FI representative will follow up with the customer.

OTHER SERVICES

GATEWAY SERVICES

Online Resources has the ability to provide gateway services through Content\$Link to other financial service providers. We currently have a link to Thompson Investor Network which provides investment information through the Web.

CUSTOM WORK

Online Resources provides custom development services and custom marketing services related to the delivery and promotion of the online financial services. Online Resources reviews the project and provides a quote based on the FI's Customization Rate.

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EXHIBIT C: PRICING--HERITAGE OAKS BANK

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IMPLEMENTATION

Standard Implementation

Up to \$1 billion in assets	One Time Per FI	\$20,000
Holding Company affiliates		
w/same Connectivity Path	One Time Per FI	\$5,000

MONTHLY ACCOUNT FEES

Consumer

Internet-only access

Banking Service	Per Billable Acct per Month	\$1.95
Bill Payment Service	Per Billable Acct per Month	
Up to 1,000 bill payment accounts		\$4.00
1,000 - 2,500 bill payment accounts		\$3.90
2,500 - 10,000 bill payment accounts		\$3.70
10,000 - 20,000 bill payment accounts		\$3.60
Over 20,000 bill payment accounts		\$3.50

Small Business

Banking Service	Per Billable Acct per Month	\$4.95
Bill Payment Service	Per Transaction	\$0.40

Inter Bank Transfers

5 day availability	Per Transfer	\$0.75
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Monthly Account Fee Minimums (a)

Minimum for months 1-6	Per Month	\$1,000
Minimum for months 7-12	Per Month	\$1,500
After first 12 months	Per Month	\$2,000

SYSTEM MAINTENANCE

Maintenance	Per Month	\$300
Re-processing support	As Needed	\$100

USER ACTIVATION

Activation (b)	Per Billable Account	\$10
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C-1

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<S>	<C>	<C>
CUSTOMER SERVICE		
Online Resources service bureau		
Premium 24 x 7 coverage	Per Billable Acct per Month	\$2.00

INTERNET SERVICES OPTION

See Web Site Design and Hosting Agreement

C/S AND BRANCH SALES TRAINING OPTIONS

Training materials	Per Program	\$250
Sessions conducted at Online facility	Per Day	\$750
Sessions conducted at FI facility		

First day	Per Day	\$1,500
Consecutive days	Per Day	\$1,000

MARKETING SUPPORT SERVICES OPTIONS

Consumer Marketing		
TV and radio spot (FI branded)	One Time	\$2,000
Print media (FI branded)	One Time	\$2,000
Advertising, Messaging & Product Information		
Initial creation - basic	Per Screen	Included
Screen changes	Per Screen	\$50

FULFILLMENT OPTION

Shipping of customer welcome kits	Per Shipment	\$3.95
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USER BILLING

User billing via ACH debit	Per Debit	\$0.50
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CUSTOMIZATION OPTIONS

Development for implementation, statement files, marketing materials, training, reports and Internet support (Min \$500 for reports; \$1,500 for all other)	Per Hour	\$150
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</TABLE>

ENDNOTES

- a) Phased in equally over 3 months beginning on the earlier of two dates: either 150 days after signing or 60 days after technical connections are completed. For example, if the minimum is \$1,000, the first monthly payment is \$333, the second is \$667 and the third monthly payment is \$1,000.
- b) Includes account set-up, enabling access device usage license, linking user to enabling devices, technical support, password maintenance, and new merchant solicitation.

FOR ANY PRODUCT OR SERVICE NOT LISTED ABOVE, PLEASE CONTACT ORCC FOR CURRENT PRICING.

MASTER DATA PROCESSING AGREEMENT

This Data Processing Agreement, dated October 1, 1998 is made between MIDWEST PAYMENT SYSTEMS, INC., having its principal office at 38 Fountain Square Plaza, Cincinnati, Ohio 45263 ("MPS") and HERITAGE OAKS BANK ("Customer"), having its principal office at 545 Twelfth Street, Paso Robles, CA 93446. MPS and Customer hereby agree as follows:

1. DEFINITIONS

For the purposes of this Agreement, the following terms shall have the meanings set forth below: (a) "Agreement" shall mean this Master Data Processing Agreement and each addendum attached hereto or referencing this Agreement, and all documents and other materials incorporated herein by reference (b) "Addendum" or "Addenda" shall mean the addenda incorporated herein or referencing this Agreement, which describe some of the terms under which the data processing services will be provided by MPS to Customer, and the fees to be charged therefor (c) "Services" shall mean the data processing services provided by MPS to Customer as described in the Addenda (d) Other defined terms applicable to this Agreement and each Addendum will be contained in a "Definitions and General Services Addendum" as may be published and modified from time to time by MPS and the parties agree that such Addendum shall be incorporated herein and made part of this Agreement. This Master Data Processing Agreement contains the general terms and conditions applicable to each Addendum. Each Addendum describes the specific Services to be provided by MPS to Customer and supplements the Master Data Processing Agreement.

2. SERVICES

(a) MPS's Obligations. MPS will perform the Services as set forth in the Addenda. MPS may make changes in the Services based upon, but not limited to, technological developments, legislative or regulatory changes, or the introduction of new services by MPS. MPS will use its reasonable best efforts to notify Customer of any such changes that will materially affect Customer at least 30 days prior to the implementation date of any such change. The parties agree that MPS shall be the exclusive provider of the Services described in each Addendum to this Agreement.

(b) Customer Service Assistance. At the request of Customer, MPS shall provide customer service assistance necessary to resolve any errors or alleged errors involving the Services. Assistance from MPS shall be charged at MPS's standard rates, provided, however, that customer service assistance, if any, shall be billed on a monthly basis, but shall be without charge to Customer up to an amount equal to 10% of Customer's billings for the Services for the current month. Provided, however, that this monthly customer service fee allowance shall not apply to a request for assistance concerning a transaction or transactions where the records have been delivered and the 7 day period set forth in Section 10(f) has expired.

3. TERM

The term of this Agreement shall commence October 1, 1998, and shall continue thereafter in accordance with the respective Addenda, unless earlier terminated in accordance with this Agreement or any Addendum. Notwithstanding

any Addendum, MPS may, at any time prior to a renewal period, refuse to extend the term of any Addendum if Customer is in default of this Agreement, or has from time to time been in default of this Agreement.

4. FEES AND PAYMENTS

The Customer shall pay to MPS for the Services, the fees and expenses set forth in this Agreement and the Addenda. All fees shall be paid within 30 days of Customer's receipt of MPS's invoice unless otherwise provided herein. Alternatively, MPS may, at its option, debit Customer's billing account on or any time after the first day of each month through ACH. MPS will then provide Customer with a statement of services rendered and charges therefore. Customer shall supply MPS with a billing account number for this purpose. MPS may not increase the fees during the first twelve months of the Initial Term of any Addendum. Thereafter, MPS may change, at its discretion, any fee upon notice to Customer; provided, however, that any increase in prices for existing recurring Services shall not in the aggregate exceed 10% in any calendar year, excluding any price increase due to increased fees or assessments imposed by third party providers such as, but not limited to, telecommunication companies and national or regional network switch providers. Any increase shall become effective not less than 30 days after the date MPS sends to Customer, by ordinary mail, notice of such increase. MPS may charge for any non-specified service it provides and expense it incurs at the request of or on behalf of Customer and Customer shall pay for such services and expenses as provided in this Section 4.

Notwithstanding any other provisions of this paragraph, in the event that by virtue of any law, rule, or regulation now existing or hereinafter enacted, MPS or Customer becomes obligated to change in any fashion their manner of doing business in order to comply with such law, rule or regulation and MPS incurs any increased cost by virtue thereof, MPS

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may reasonably increase its fees to Customer set forth in the attached Addenda as necessary to offset such increased costs. Any increased fees hereunder if any, shall not be taken into account for purposes of any price adjustment.

All fees and charges paid hereunder shall be made without set-off or deduction. Customer shall pay a late charge of 10% of the delinquent amount when such amount is paid more than 5 business days after it is due. Any fee not paid when due shall bear interest at 1 percentage point per month but in no event more than the highest interest rate permitted by law.

5. TITLE TO THE SERVICES

Customer agrees it is acquiring only a nontransferable, non-exclusive right to use the Services. MPS shall at all times retain exclusive title to the Services, including without limitation, any materials delivered to Customer hereunder and any invention, development, product, trade name, trademark, service mark or software program developed in connection with providing the Services or during the term of this Agreement.

6. CONFIDENTIAL INFORMATION

(a) Information Supplied by Provider. Customer acknowledges that the

methods, techniques, programs, devices and operations of MPS are of a confidential nature, and are valuable and unique assets of MPS's business. During the term of this Agreement and following the expiration or termination thereof, Customer shall not disclose any such confidential information to any person or entity (other than to those employees and agents of Customer who participate directly in the performance of this Agreement and need access to such information). Upon termination of this Agreement, Customer shall deliver to MPS all manuals, memoranda and other papers, and all copies thereof, relating in any way to the Services or to MPS. Customer acknowledges that it does not have nor can Customer acquire any right in or claim to such confidential information. Customer shall take all necessary steps, including having its employees and agents execute such documents as MPS deems reasonably necessary, to cause them to comply with the terms of this Section 6(a). Evidence of such compliance shall be provided to MPS. Customer acknowledges that the injury that would be sustained by MPS as a result of the violation of this provision cannot be compensated solely by money damages, and therefore agrees that MPS shall be entitled to injunctive relief and any other remedies as may be available at law or in equity in the event Customer or its employees or agents violate the provisions contained in this Section 6(a). The restrictions contained in this Section 6(a) shall not apply to any information which becomes a matter of public knowledge, other than through a violation of this Agreement or other agreements to which MPS is a party.

(b) Confidential Information Furnished by Customer. MPS recognizes that in order to enable MPS to provide the Services, Customer may disclose to MPS certain confidential information concerning its accounts and customers. MPS will not disclose any such confidential information other than to those employees and agents who participate directly in the performance of this Agreement. Provided, however, MPS may disclose information it receives as may be required or permitted by any federal, state or local ordinance, any regulation or directive of any governmental agency, or any court order or legal process.

(c) Miscellaneous. Customer acknowledges that MPS shall not be responsible for the accuracy or adequacy of any information provided by Customer or others to MPS; nor shall MPS be liable for any damage, loss or liability whatsoever resulting to Customer or its customers as a result of the inaccuracy or inadequacy of such information.

7. TERMINATION BY CUSTOMER

(a) Correcting Defects. In the event that any materials furnished by MPS are inaccurate, incomplete, or incorrect, or in the event MPS temporarily fails to provide the Services (collectively a "Defect"), MPS may either correct the Defect, without charge to Customer, or effect an equitable reduction of the price paid or payable for the Services to which such Defect relates, provided that MPS has received written notice of the Defect from Customer within 30 days from the date on which Customer became aware of, or should have become aware of, such Defect; provided, however, MPS will not be liable to Customer for any Defect that should have been reported to MPS pursuant to Section 10(d), or which Defect first occurred, whether or not discovered by Customer, more than 30 days prior to MPS's receipt of notice of the Defect.

(b) Substantial Nonperformance. In the event Customer reasonably believes that MPS has substantially failed to provide the Services, Customer will give to MPS a written notice specifically describing the nature of such failure and the approximate date on which MPS failed to so provide the Services. Upon

receipt of such notice, MPS shall have 30 days to cure such failure, unless such failure cannot be reasonably cured within such period and in such case MPS shall have such additional time as may be necessary to cure such failure provided that MPS is proceeding diligently to effect such cure. In the event MPS fails to cure such failure within such time, and such failure has or will have a materially adverse effect upon Customer, Customer shall have a right to terminate this Agreement effective upon not less than 60 days prior notice to MPS.

Upon such termination, MPS will reimburse Customer the actual monetary damages Customer incurred as a result of

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MPS's nonperformance; provided, however, in no event shall such damages exceed the limit of liability set forth in Section 9. The obligations of MPS under this Section 7 are conditioned upon: (i) MPS receiving a notice of nonperformance from Customer as required in this Section 7, and (ii) MPS being reasonably satisfied upon investigation that the nonperformance was not a result of any negligent, improper or prohibited act or omission of Customer, or their employees or agents, or any other factor not directly within the reasonable control of MPS. Customer shall promptly reimburse MPS for any expenses incurred by MPS in investigating or correcting any problem experienced by Customer which is not the responsibility of or solely caused by MPS under this Agreement.

(c) Excused or Delayed Performance. MPS shall not be deemed to be in default under this Agreement nor liable for any delay or loss in the performance, failure to perform, or interruption of any services resulting, directly or indirectly, from errors in data provided by Customer or others, labor disputes, fire or other casualty, governmental orders or regulations, or any other cause, whether similar or dissimilar to the foregoing, beyond MPS's reasonable control. Upon such an occurrence, performance by MPS shall be excused until the cause for the delay has been removed and MPS has had a reasonable time to again provide the Services.

8. TERMINATION BY MPS

(a) Default of Customer. Customer shall be in default under this Agreement upon the occurrence of any of the following events ("Events of Default"):

(i) In the event that Customer becomes subject to any voluntary or involuntary bankruptcy, insolvency, reorganization or liquidation proceeding, a receiver is appointed for Customer, or Customer makes an assignment for benefit of creditors, or admits its inability to pay its debts as they come due; or

(ii) In the event Customer fails to pay the fees, expenses or charges referenced in Section 4 when they become due; or

(iii) In the event Customer sells 50% or more of the assets related to the Services while this Agreement is in full force and effect; or

(iv) In the event that Customer is in default of any terms or conditions of this Agreement (other than Section 4) or any Addendum whether by reason of

its own action or inaction or that of another, and such default continues for 30 days after receipt of a notice from MPS describing such default or violation, unless within such 30-day period Customer either corrects the default or, in the opinion of MPS, initiates appropriate action to correct such default and thereafter diligently pursues to cure such fault.

(b) Termination. Upon the occurrence of an Event of Default, MPS may at any time thereafter terminate this Agreement effective 60 days after notice of such termination is given by MPS to Customer. Termination of Customer for any reason shall not relieve Customer from any liability or obligation to MPS arising prior to such termination. In the event this Agreement is terminated by MPS other than at the end of the Initial Term or any renewal period, Customer shall be liable to MPS for liquidated damages in an amount equal to the average amount of the monthly revenue payable to MPS (excluding any credits applied to and/or fees waived for Customer by MPS) as a result of this Agreement for the 3 calendar months in which Customer's billings were the highest during the preceding 12 calendar months (or such shorter period if this Agreement has not been in effect for 12 months), multiplied by the number of months remaining during the then current term of this Agreement. Customer and MPS recognize and agree that the liquidated damages are fair and reasonable because it is not possible to establish the actual increase in volume and activity by Customer during the term of this Agreement. Customer shall also reimburse MPS for any damage, loss or expense incurred by MPS as a result of a breach by Customer, including any damages set forth in any Addendum. All such amounts shall be due and payable by Customer on the effective date of termination. In addition to, and not in limitation of the foregoing, MPS may refuse to provide the Services in the event it has not been paid for the Services as provided in Section 4.

(c) This Agreement, including any Addendum, may be terminated by MPS for any reason at any time upon 180 days prior written notice to Customer.

(d) Notwithstanding any other provision in this Agreement, in the event that Customer fails to comply with any term or provision of any Addendum or this Agreement, which failure adversely affects MPS, MPS reserves the right to refuse to perform the Services for Customer unless and until Customer has corrected its failure to comply.

9. LIMITS ON LIABILITY

EXCEPT THOSE EXPRESS WARRANTIES MADE IN THIS AGREEMENT, MPS DISCLAIMS ALL WARRANTIES INCLUDING, WITHOUT LIMITATION, ANY EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. Without limiting the foregoing, MPS shall not be liable for lost profits, lost business or any incidental, special, consequential or punitive damages (whether or not arising out of circumstances known or foreseeable by MPS) suffered by Customer, its customers or any third party in connection with the Services provided by MPS hereunder. MPS's liability hereunder shall in no event exceed an amount equal to the lesser of (i) actual monetary

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damages incurred by Customer or (ii) fees paid for the particular Services in question for the calendar month immediately preceding the date on which MPS received Customer's notice of nonperformance as set forth in Section 7. In no event shall MPS be liable for any matter beyond its reasonable control, or

for damages or losses wholly or partially caused by the Customer, or its employees or agents, or for any damages or losses which could have been avoided or limited by Customer giving notice to MPS as provided in Section 7. No cause of action, regardless of form, shall be brought by either party more than 1 year after the cause of action arose, other than one for the nonpayment of fees and amounts due MPS under this Agreement.

10. CUSTOMER'S REPRESENTATIONS AND COVENANTS

Customer represents and warrants to MPS:

(a) That it will comply, and will cause its employees and agents to comply with, all the terms of this Agreement and any Addendum, including any amendments thereto.

(b) That it will comply with all applicable federal, state and local laws and regulations applicable to its business operations and will acquire all the rights and licenses deemed necessary by MPS for MPS to interface with Customer, or vice versa, as contemplated under this Agreement.

(c) That it will solely be responsible for the quality, accuracy, and adequacy of all information supplied to MPS to be input into MPS's computer system or otherwise provided to MPS hereunder, and that it will establish and maintain adequate audit controls to monitor the quality and delivery of such data. Customer acknowledges that MPS may intercept and settle Customer transactions directly with other entities processed by MPS.

(d) That it will review all reports prepared by MPS and its agents and submitted to Customer. Customer's failure to reject any report in writing within three business days of its receipt shall constitute acceptance of the report.

(e) Customer shall comply with all time deadlines, equipment and software maintenance and upgrading requirements which MPS may reasonably impose on Customer from time to time.

(f) Customer shall solely be responsible for all recordkeeping as may be required of it under any federal, state or local laws and regulations. MPS shall not be obligated to retain any records of Services performed hereunder for a period beyond 7 calendar days after delivery of the records to Customer.

(g) That it will indemnify, defend and hold MPS, and its directors, officers, employees, affiliates and agents, harmless from all proceedings, claims, liabilities and expenses whatsoever (including attorneys fees) arising out of the Services, the business of Customer or its customers, or by reason of any breach or nonperformance or any provision of this Agreement or any Addendum on the part of the Customer, or its employees, agents or customers, except, however, where such is due to the sole negligence of MPS.

(h) Customer agrees not to solicit or hire MPS's or its affiliates' employees for employment during the period that this Agreement is in force and effect and for one (1) year after the termination or expiration of this Agreement.

(i) Should Customer give notice of termination to MPS at any time, Customer warrants that both before entering into any agreement with any third party for the Services provided to Customer by MPS as specified in this Agreement (including all exhibits and Addenda hereto and all documents and materials reference herein) or before taking such processing in-house, MPS shall have

the right of first refusal of entering into agreements with Customer for all such Services under the same terms and conditions (except for the length of the term, which shall not be less than the length of the term of the Agreement for which Customer is giving termination notice to MPS) in lieu of Customer entering into such agreement with a third party. Also, if Customer plans to bring such processing in-house, MPS shall have the right of first refusal of entering into an agreement with Customer for such processing at fees equal to an overall cost (including but not limited to hardware, software, personnel, etc.) of product development, conversion and maintaining such processing in-house.

11. AUDIT PROCEDURES

MPS shall allow Customer's auditors to review the files held and the procedures followed by MPS. MPS will assist such auditors as may be necessary for them to complete their audit; provided, however, that MPS reserves the right to charge Customer for MPS's out-of-pocket expenses and its standard fees for the time spent by MPS's personnel in providing such assistance to Customer's auditors, or to any governmental examiners because of those services MPS is providing to Customer.

12. MISCELLANEOUS

(a) Other Agreements. MPS reserves the right to enter into other agreements pertaining to the Services with others, including without limitation other banks, savings and loan associations, credit unions and other financial institutions.

4-MSTR

(b) Taxes. Any sales, use, excise or other taxes (other than MPS's income taxes) payable in connection with or attributable to the Services shall be paid by Customer. MPS may, but shall not have the obligation to pay such taxes if Customer fails to do so. In the event MPS pays such taxes, Customer shall immediately reimburse MPS upon demand and at the interest rate applicable for delinquent amounts as set forth in Section 4 hereof.

(c) Violation of Applicable Laws and Regulations. MPS may cease providing any Service if such Service, in MPS's opinion, violates any federal, state or local statute or ordinance or any regulation, order or directive of any governmental agency or court.

(d) Entire Agreement. This Agreement (including all exhibits and Addenda hereto and all documents and materials referenced herein) supersedes any and all other agreements, oral or written, between the parties hereto with respect to the subject matter hereof, and contains the entire agreement between such parties with respect to the transactions contemplated hereunder. If there is a conflict between this Master Data Processing Agreement and the Addenda, the Addenda shall control.

(e) Amendments. This Agreement and any Addendum shall only be modified or amended by an instrument in writing signed by each party hereto. Provided, however, MPS may amend or otherwise modify this Agreement and any Addendum provided such modification does not create any new obligation on the part of Customer and does not materially diminish any Service being provided by MPS

hereunder. MPS shall give Customer notice of such changes by ordinary mail.

(f) Successors; Assignment. This Agreement and all of the provisions hereof shall be binding upon the inure to the benefit of the parties hereto and their respective successors, transferees and assignees. Neither this Agreement nor any interest herein may directly and indirectly be transferred or assigned by Customer, in whole or in part, without the prior written consent of MPS.

(g) Notices. Except as provided in Section 4 and Section 12(e) all notices, requests, demands and other communications to be delivered hereunder shall be writing and shall be delivered by hand or mailed, by registered or certified mail, postage prepaid, at or to the following addresses:

<TABLE>

(i) If to MPS: <S> Midwest Payment Systems, Inc. 38 Fountain Square Plaza Cincinnati, Ohio 45263 Attention: President With a copy to: General Counsel of MPS at the same address	(ii) If to Customer: <C> ----- ----- ----- Attention: -----
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</TABLE>

or to such other address or to such other person as either party shall have last designated by written notice to the other party. Notices, etc., so delivered shall be deemed given upon receipt.

(h) Waiver. If either party waives in writing and unsatisfied condition, representation, warranty, undertaking or agreement (or portion thereof) set forth herein, the waiving party shall thereafter be barred from recovering, and thereafter shall not seek to recover, any damages, claims, losses, liabilities or expenses, including, without limitation, legal and other expenses, from the other party in respect of the matter or matters so waived. Except as otherwise specifically provided for in this Agreement or any Addendum, the failure of any party to promptly enforce its rights herein shall not be construed to be a waiver of such rights unless agreed to in writing. Any rights and remedies specifically provided for in any Addendum are in addition to those rights and remedies set forth in this Agreement.

(i) Headings. The headings in this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision of this Agreement.

(j) Severability. If any term or provision of this Agreement or any application thereof shall be invalid or unenforceable the remainder of this Agreement and any other application of such term or provision shall not be affected thereby.

(k) No Third Party Beneficiary. This Agreement is for the benefit of, and may be enforced only by, MPS and Customer and their respective successors and permitted transferees and assignees, and is not for the benefit of, and may

not be enforced by, any third party.

(l) Applicable Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Ohio. The parties hereby consent to service of process, personal jurisdiction, and venue in the courts of general jurisdiction of Cincinnati, Ohio or Hamilton County, Ohio, and any federal court with concurrent jurisdiction, with respect to any action or proceeding brought to enforce any liability or obligation under this Agreement.

5-MSTR

(m) Authorization. Each of the parties hereto represent and warrants on behalf of itself that it has full power and authority to enter into this Agreement; that the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate or partnership or other appropriate authorizing actions; that the execution, delivery and performance of this Agreement will not contravene any applicable by-law, corporate charter, partnership or joint venture agreement, law, regulation, order of judgment; that execution, delivery and performance of this Agreement will not contravene any provision or constitute a default under any other agreement, license or contract which such party is bound; and, that this Agreement is valid and enforceable in accordance with its terms.

(n) Counterparts. This Agreement may be executed and delivered in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

(o) Drafting. This Agreement has been drafted by MPS as a matter of convenience only and shall not be construed in favor of either party on that account.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their authorized officers as of the dates set forth below.

MIDWEST PAYMENT SYSTEMS, INC.

By: /s/ BARRY L. BOERSTLER

Name: BARRY L. BOERSTLER

Title: SENIOR VICE PRESIDENT

Date: November 30, 1998

CUSTOMER--HERITAGE OAKS BANK

By: _____
Name: _____
Title: _____
Date: _____

(m) Authorization. Each of the parties hereto represents and warrants on behalf of itself that it has full power and authority to enter into this Agreement; that the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate or partnership or other appropriate authorizing actions; that the execution, delivery and performance of this Agreement will not contravene any applicable by-law, corporate charter, partnership or joint venture agreement, law, regulation, order or judgment; that execution, delivery and performance of this Agreement will not contravene any provision or constitute a default under any other agreement, license or contract which such party is bound; and, that this Agreement is valid and enforceable in accordance with its terms.

(n) Counterparts. This Agreement may be executed and delivered in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

(o) Drafting. This Agreement has been drafted by MPS as a matter of convenience only and shall not be construed in favor or either party on that account.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their authorized officers as of the dates set forth below.

MIDWEST PAYMENT SYSTEMS, INC.

By: _____
Name: _____
Title: _____
Date: _____

CUSTOMER--HERITAGE OAKS BANK

By: /s/ LAWRENCE P. WARD
Name: LAWRENCE P. WARD
Title: President
Date: November 30, 1998

AMENDMENT NO. 1 TO
THE MASTER DATA PROCESSING AGREEMENT AND CORRESPONDING ADDENDA

This Amendment No. 1 to the Master Data Processing Agreement dated October 1,

1998, and corresponding Addenda, (collectively the "Agreement") is made between MIDWEST PAYMENT SYSTEMS, INC. ("MPS") and HERITAGE OAKS BANK ("Customer"). The Agreement shall be amended in the following respects.

- I. EXECUTION OF NEW AGREEMENT. On or before the execution of this Amendment No. 1 by Customer, Customer agrees to execute an unaltered original of MPS' standard Master Data Processing Agreement and corresponding Addenda BV, CU, FS, FU, KU, NA and TU, to the Master Data Processing Agreement dated October 1, 1998, where all such Addenda are dated October 1, 1998, and each having an Initial Term of not less than thirty-nine (39) months collectively, "New Agreement").
- II. CONVERSION. Customer acknowledges and agrees that it shall do everything necessary to convert to MPS' system for all of the Services in the Agreement at the earliest possible opportunity but in no event later than March 1, 1999. MPS will use its best efforts to convert Customer's existing cardbase on or before March 1, 1999, however, Customer acknowledges and agrees that MPS' conversion of Customer is based on data provided by third parties and MPS shall not be in breach of the Agreement in the event the data provided by such third parties is incomplete and/or inaccurate (i.e., such data does not contain Customer cardbase information required by MPS, including, but not limited to, PIN/PIN Offsets, card numbers, account numbers, name and address information and CVV algorithms). MPS and Customer acknowledge and agree that MPS will use its best efforts to support online authorization for Customer's Cardholders' transactions via MPS connection to the Alltel Community Banking Data Center in Los Angeles, California, however, in the event said online connection through Alltel is not available for reasons beyond the control of MPS, Customer agrees that MPS will use an extracts/positive file balance environment for support of Customer's authorizations, until such time as an online authorization environment may be established in accordance with MPS' standards.
- III. WAIVER CREDIT. In consideration of Customer executing more than a thirty-nine (39) month Agreement with MPS (i.e., a thirty-nine (39) month term, plus the Waiver Period, as defined below, for Addenda BV, CU, FS, FU, NA and TU executed by Customer and MPS) and continuing to process with MPS for all the Services in each executed Addenda for at least such thirty-nine (39) month term plus the Waiver Period, the net amount of MPS fees (but not third party fees) assessed by MPS on an MPS Services Invoice in connection with some or all of the following list of individual services shall be applied by MPS against a one-time waiver credit amount equal to the lesser of: (i) the actual costs paid by Customer to convert from EDS' system or (ii) \$15,000.00 ("Waiver Credit") until such Waiver Credit is reduced to zero; provided that Customer provides MPS written documentation evidencing the total cost actually paid by Customer to EDS for Customer's conversion from EDS' system with such documentation sent to the MPS General Counsel at 38 Fountain Square Plaza, Cincinnati, Ohio 45263, with a copy to the Billing Manager at the same address.

<TABLE>
<CAPTION>

ADDENDUM FS

<S>	<C>	<C>
-	Section C.3.a),	Electronic authorization
-	Section C.3.c),	Remote item posting fee

- Section C.4.a), Plastic debit or credit card
- Section C.4.b), Account file residency
- Section C.4.c), Credit account statement-to-date
- Section C.5, Credit account monthly maintenance

ADDENDUM NA

- Section C.1), ATM Access Fees
- Section C.3.a), All Transactions
- Section C.3.b), Positive Balance Authorization Surcharge
- Section C.3.c), Stand-in Processing Surcharge
- Section C.4.a), Plastic debit or credit card file
- Section C.4.b), Cluster File Extension Support
- Section C.4.c), Account File Residency (Option Z)
- Section C.4.d), CRT File Updates
- Section C.4.e), Cluster PIN Validation transaction fee surcharge
- Section C.6.a), Stand-in Processing File residency
- Section C.6.b), Stand-in Processing File residency extension
- Section C.6.c), Stand-in Processing CRT file updates
- Section D, Network Access Services, Monthly Access Fee
- Section E.1.a), Online Adjustment System File Residency
- Section E.1.b), Online Adjustment System CRT file updates
- Section E.2.b), Online Deposit System CRT file updates

</TABLE>

The Waiver Credit shall be reduced monthly by MPS fees incurred and payable by Customer on the MPS Services Invoice in the given month for some or all of the services above until such Waiver Credit is reduced to zero. The total number of calendar months during which any portion of the Waiver Credit was applied on an MPS Services Invoice shall be referred to as the "Waiver Period". At the conclusion of such Waiver Period, Customer shall be charged the fees specified in the Addendum for such services, subject to any increases under Section 4 of the Master Data Processing Agreement, and/or the fees for such services as amended herein, subject to any increases under Section 4 of the Master Data Processing Agreement. Notwithstanding any other provision of this Agreement, Customer expressly acknowledges and agrees that Customer shall be obligated to unconditionally pay MPS an amount equal to the total amount of the Waiver Credit applied on any MPS Services Invoices during any portion of the Waiver Period (which Waiver Credit shall be \$15,000.00 if the Waiver Period has expired) in the event of a material Event of Default by Customer. Customer expressly acknowledges and agrees that the amount payable by Customer pursuant to the previous sentence shall be in addition to any other amounts payable by Customer pursuant to this Agreement, including but in no way limited to the amount payable for Deconversion Support and the amount payable pursuant to Section 8. (b) of the Master Data Processing Agreement

IV. MPS and Customer acknowledge and agree that, for purposes of this Agreement and for determining the length of the Initial Term of each Addendum to the Agreement, the term "Initial Term Period" shall mean the period of time equal to thirty-nine (39) months plus the Waiver Period.

AMENDED AS FOLLOWS:

1. Section 2.(a), MPS's Obligations, shall be amended by deleting the last sentence of the paragraph beginning in line six (6) with the words "The parties agree" and substituting the following in lieu thereof:

"The parties agree that MPS shall be the exclusive provider of the Visa Check Card Services and ATM Card Services. The parties further agree that MPS shall be the exclusive provider of the Intercept Services and Processor Services and Gateway Services for each of Customer's existing and future branch ATMs, which for purposes of this Agreement shall mean those ATMs located on property where Customer operates a manned banking facility. At the time of the execution of this Agreement, the parties acknowledge that, for purposes of this exclusivity clause, Customer has a total of 7 ATMs at its bank branches, 5633 ATM cards and 2,606 Visa Check cards."

2. Section 2, Services, shall be amended by adding the following new provisions as Section 2.(c):

"(c) Year 2000. MPS' proprietary software used in connection with the Services will be able to accurately process data (including calculating, comparing, and sequencing) from, into, and between the twentieth twenty-first centuries when used in accordance with MPS' standards, provided that all other products, systems and services (e.g., hardware, ATMs, software, firmware, etc.) used by Customer or other third parties in combination with the Services properly exchange, in accordance with MPS' standards, data and related information with MPS' proprietary software."

3. Section 4, Fees and Payments, paragraph number one, shall be amended by deleting the sentences beginning in line two (2) with the words "All fees shall be paid" and ending in line seven (7) with the words "for this purpose".
4. Section 4, Fees and Payments, paragraph number one, shall be amended by deleting the words "exceed 10% in any calendar year" in line ten (10) and substituting the words "exceed the higher of five percent (5%) per annum, or the change, expressed as a percentage in the official Consumers Price Index (CPI) for Wage Earners and Clerical Workers as published by the U.S. Department of Labor, Bureau of Labor Statistics, (for the most recent 12 month period for which data is available), in any calendar year ("5%--CPI Increase")" in lieu thereof.
5. Section 4, Fees and Payments, paragraph number one, shall be further amended by adding the following sentence to the end of the paragraph:

"MPS and Customer agree that MPS will not debit Customer's account via ACH to settle the fees payable to MPS pursuant to this Agreement, rather, MPS will send Customer an invoice for such amounts, and Customer will remit payment to MPS within fifteen days (15) days of Customer's receipt of the same."
6. Section 4, Fees and Payments, paragraph number three, shall be amended by deleting the phrase "1 percentage point" in the last sentence and replacing it with the phrase "1.5 percentage points".
7. Section 6.(a) shall be amended by inserting the following sentence

after the words "access to information" in line seven (7):

"Provided, however, Customer may disclose information it receives as may be required by any federal, state or local ordinance, any regulation or directive of any governmental agency, or any court order or legal process."

8. Section 6.(b), Confidential Information Furnished by Customer, shall be amended by adding the following sentence to the end of the paragraph:

"MPS agrees to maintain such Customer confidential information under the same terms and with the same remedies that Customer is to treat MPS supplied information as specified in Section 6.(a)., however, Customer acknowledges that certain Customer Confidential information will be disclosed to Alltel Information Systems."

9. Section 7.(b), Substantial Nonperformance, paragraph number 1, shall be amended by deleting the words "such additional time as may be necessary to cure such failure provided that MPS is proceeding diligently to effect such cure" beginning in line six (6) and substituting the words

"an additional ninety (90) days to cure such failure" in lieu thereof, and further amended by deleting the words "upon not less than 60 days prior notice to MPS" in line ten (10) and substituting the words "upon Customer's written notice of its intent to terminate" in lieu thereof.

10. Section 8.(a)(ii) Default by Customer, shall be amended by deleting the ", or" at the end of the sentence and adding the following in lieu thereof, ", unless there is a bona fide dispute concerning the validity of those fees, expenses or charges; or"

11. Section 8.(a)(iii) Default by Customer, shall be amended by adding the following to the end of the sentence, ", unless such purchaser(s) of the assets execute(s) a Master Data Processing Agreement and all Addenda then currently in place with Customer, covering all the applicable assets and all Services."

12. Section 8.(b), Termination, shall be amended by adding the words, "multiplied by 80%" after the words "current term of this Agreement" in line nine (9).

13. Section 9, Limits on Liability, shall be amended by deleting the words "calendar month" in line nine and substituting the words "two calendar months" in lieu thereof; and further amended by deleting the last sentence of the section beginning in line fifteen (15) with the words "No cause of action".

14. Section 10.(d) shall be amended by inserting the words "and invoices" after the word "reports" in line one (1) and further amended by deleting the words "any report in writing within three business days" in line two (2) and substituting the words "any settlement oriented report within seven business days of its receipt or any other report, including but not limited to invoices, within thirty (30) business days" in lieu thereof, and further amended by adding the word "and/or invoice" after the word "report" in line three (3).

15. Section 10.(g) shall be amended by deleting the words "where such is due to the sole negligence of MPS" beginning in line six (6) and

substituting the words "to the extent caused by MPS' negligence, willful misconduct or breach of the Agreement" in lieu thereof.

16. Section 10.(i) shall be deleted in its entirety.

17. Section 12.(e), Amendments, shall be amended by deleting the last two sentences of the paragraph beginning in line two (2) with the words "Provided, however" and ending in line six (6) with the words "by ordinary mail".

18. Section 12.(f), Successors; Assignment, shall be amended by adding the following after the words "consent of MPS" in line five (5):

" , which consent shall not be unreasonably withheld; provided, however, that such transferee or assignee executes an amendment to this Agreement acknowledging such transferee's or assignee's obligations under this Agreement, including but not limited to its payment of any fees or costs associated with such transfer or assignment."

19. Section 12.(o), Drafting, shall be deleted in its entirety.

B. ADDENDUM BV DATED OCTOBER 1, 1998, SHALL BE AMENDED AS FOLLOWS:

1. Section B, Term, shall be deleted in its entirety and the following substituted in lieu thereof:

"The term of this Addendum shall commence on October 1, 1998, and shall continue for the Initial Term Period from the 1st day of the calendar month following the above date or the date MPS has received notice from CIRRUS of its acceptance of Licensee as a Corresponding Member or the date of Licensee's conversion to MPS for Gateway Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to three (3) years each."

2. Section C.2, Monthly Assessment Fee, shall be amended by MPS crediting Customer \$100/month during the Initial Term to partially offset the Monthly Assessment Fee, provided Customer's executed Addenda CU, FU, KU and TU are in full force and effect, and further provided Customer is assessed such fee by MPS.

3. Section D.10 shall be deleted and replaced with the following:

"Customer agrees to be responsible for all direct costs and third party fees, including but not limited to those incurred by MPS, at the termination of the Agreement, and/or related to Customer's conversion from MPS at any time. However, with respect to Customer's conversion from MPS upon the termination of the entire Agreement, such direct costs shall be limited to sixty (60) programming hours plus one (1) programming hour per ATM, multiplied by the number of Customer's then current number of ATMs, plus the programming hours for any written special requests made by Customer to MPS. This limitation shall apply, and shall be the total

maximum direct costs for deconversion, regardless of the number of Addenda executed by the parties."

4. Section E, Indemnification, shall be amended by deleting the words "MPS or Licensee, or their agents" in line seventeen (17) and substituting the words "Licensee or its agents" in lieu thereof, and further amended by adding the following to the end of the paragraph:

"MPS agrees to indemnify and hold harmless, Customer, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that Customer, its officers, employees, affiliates and agents may incur as a result of MPS' failure to comply with any provision of the Agreement or this Addendum, whether incurred by or as a result of the action or failure to act of MPS or its agents, except for such losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, which are caused by the negligence of Customer, a third party or CIRBUS. This indemnification shall survive the termination of the Agreement and/or this Addendum."

C. ADDENDUM CU DATED OCTOBER 1, 1998, SHALL BE AMENDED AS FOLLOWS:

1. Section B, Term, shall be deleted in its entirety and the following substituted in lieu thereof:

"The term of this Addendum shall commence on October 1, 1998, and shall continue for the Initial Term Period from the 1st day of the calendar month following the above date or the date Bank has received notice from PSI of its acceptance of Licensee as a Sponsored Member or the date of Licensee's conversion to MPS for PLUS Gateway Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to three (3) years each."

2. Section C.2, Monthly Assessment Fee, shall be amended by MPS crediting Customer \$100/month during the Initial Term to partially offset the Monthly Assessment Fee, provided Customer's executed Addenda BV, FU, KU and TU are in full force and effect, and further provided Customer is assessed such fee by MPS.

3. Section D.10 shall be deleted and replaced with the following:

"Customer agrees to be responsible for all direct costs and third party fees, including but not limited to those incurred by MPS, at the termination of the Agreement, and/or related to Customer's conversion from MPS at any time. However, with respect to Customer's conversion from MPS upon the termination of the entire Agreement, such direct costs shall be limited to sixty (60) programming hours plus one (1) programming hour per ATM, multiplied by the number of Customer's then current number of ATMs, plus the programming hours for any written special requests made by Customer to MPS. This limitation shall apply, and shall be the total maximum direct costs for deconversion, regardless of the number of Addenda executed by the parties."

4. Section E, Indemnification, shall be amended by deleting the words "MPS

or Licensee, or their agents" in line eighteen (18) and substituting the words "Licensee or its agents" in lieu thereof, and further amended by adding the following to the end of the paragraph:

"MPS agrees to indemnify and hold harmless, Customer, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that Customer, its officers, employees, affiliates and agents may incur as a result of MPS' failure to comply with any provision of the Agreement or this Addendum, whether incurred by or as a result of the action or failure to act of MPS or its agents, except for such losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, which are caused by the negligence of Customer, a third party or PLUS. This indemnification shall survive the termination of the Agreement and/or this Addendum."

D. ADDENDUM FS DATED OCTOBER 1, 1998, SHALL BE AMENDED AS FOLLOWS:

1. Section B, Term, shall be amended by deleting the first sentence in its entirety and the following substituted in lieu thereof:

"The term of this addendum shall commence on October 1, 1998 and shall continue for the Initial Term Period from the 1st day of the calendar month following the above date or the date MPS has received notice from VISA of its acceptance of Licensee as a Member or the date of Licensee's conversion to MPS for Check Card Program Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to three (3) years each."

2. Section D.10 shall be deleted and replaced with the following:

"Customer agrees to be responsible for all direct costs and third party fees, including but not limited to those incurred by MPS, at the termination of the Agreement, and/or related to Customer's conversion from MPS at any time. However, with respect to Customer's conversion from MPS upon the termination of the entire Agreement, such direct costs shall be limited to sixty (60) programming hours plus one (1) programming hour per ATM, multiplied by the number of Customer's then current number of ATMs, plus the programming hours for any written special requests made by Customer to MPS. This limitation shall apply, and shall be the total maximum direct costs for deconversion, regardless of the number of Addenda executed by the parties."

3. Section D.12 shall be deleted in its entirety.

4. Section F, Indemnification, shall be amended by deleting the words "MPS or Licensee, or their agents" beginning in line eight (8) and substituting the words "Licensee or its agents" in lieu thereof, and further amended by adding the following to the end of the paragraph:

"MPS agrees to indemnify and hold harmless, Customer, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that Customer, its officers, employees, affiliates and agents may incur as a result of MPS' failure to comply with any provision of the Agreement or this Addendum, whether incurred by or as a result of the action or failure to act of MPS or its agents, except for such losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses which are caused by the negligence of Customer, a third party or VISA. This indemnification shall survive the termination of the Agreement and/or this Addendum."

E. ADDENDUM FU DATED OCTOBER 1, 1998, SHALL BE AMENDED AS FOLLOWS:

1. Section B, Term, shall be amended by deleting the first sentence in its entirety and the following substituted in lieu thereof:

"The term of this Addendum shall commence on October 1, 1998 and shall continue for the Initial Term Period from the 1st day of the calendar month following the above date or the date Bank has received notice from VISA of its acceptance of Licensee as a Member or the date of Licensee's conversion to MPS for VISA Gateway Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to three (3) years each."

2. Section C.2, Monthly Assessment Fee, shall be amended by MPS crediting Customer \$100/month during the Initial Term to partially offset the Monthly Assessment Fee, provided Customer's executed Addenda BV, CU, KU and TU are in full force and effect, and further provided Customer is assessed such fee by MPS.

3. Section D.10 shall be deleted and replaced with the following:

"Customer agrees to be responsible for all direct costs and third party fees, including but not limited to those incurred by MPS, at the termination of the Agreement, and/or related to Customer's conversion from MPS at any time. However, with respect to Customer's conversion from MPS upon termination of the entire Agreement, such direct costs shall be limited to sixty (60) programming hours plus one (1) programming hour per ATM, multiplied by the number of Customer's then current number of ATMs, plus the programming hours for any written special requests made by Customer to MPS. This limitation shall apply, and shall be the total maximum direct costs for deconversion, regardless of the number of Addenda executed by the parties."

4. Section E, Indemnification, shall be amended by deleting the words "MPS or Licensee, or their agents" in line fifteen (15) and substituting the words "Licensee or its agents" in lieu thereof, and

further amended by adding the following to the end of the paragraph:

"MPS agrees to indemnify and hold harmless, Customer, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that Customer, its officers, employees, affiliates and agents may incur as a result of MPS' failure to comply with any provision of the Agreement or this Addendum, whether incurred by or as a result of the action or failure to act of MPS or its agents, except for such losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses which are caused by the negligence of Customer, a third party or VISA. This indemnification shall survive the termination of the Agreement and/or this addendum."

F. ADDENDUM KU DATED OCTOBER 1, 1998, SHALL BE AMENDED AS FOLLOWS:

1. Section B, Term, shall be amended by deleting the first sentence in its entirety and the following substituted in lieu thereof:

"The term of this addendum shall commence on October 1, 1998 and shall continue for the Initial Term Period or until the termination of the agreement between MPS and DCSI to provide ATM access to Discover Cards (whichever event shall earlier occur) from the 1st day of the calendar month following the above date or the date of DCSI's acceptance of Licensee as a Sponsored Member through MPS as the Direct Member or the date of Licensee's conversion to MPS for Discover Gateway Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to three (3) years each."

2. Section C.2, Monthly Assessment Fee, shall be amended by MPS crediting Customer \$100/month during the Initial Term to partially offset the Monthly Assessment Fee, provided Customer's executed Addenda BV, CU, FU and TU are in full force and effect, and further provided Customer is assessed such fee by MPS.

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3. Section D.12 shall be deleted and replaced with the following:

"Customer agrees to be responsible for all direct costs and third party fees, including but not limited to those incurred by MPS, at the termination of the Agreement, and/or related to Customer's conversion from MPS at any time. However, with respect to Customer's conversion from MPS upon the termination of the entire Agreement, such direct costs shall be limited to sixty (60) programming hours plus one (1) programming hour per ATM, multiplied by the number of Customer's then current number of ATMs, plus the programming hours for any written special requests made by Customer to MPS. This limitation shall apply, and shall be the total maximum direct costs for deconversion, regardless of the number of Addenda executed by the parties."

4. Section E, Indemnification, shall be amended by deleting the words "MPS or Licensee, or their agents" in line thirteen (13) and substituting the words "Licensee or its agents" in lieu thereof, and further amended by adding the following to the end of the paragraph:

"MPS agrees to indemnify and hold harmless, Customer, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that Customer, its officers, employees, affiliates and agents may incur as a result of MPS' failure to comply with any provision of the Agreement or this Addendum, whether incurred by or as a result of the action or failure to act of MPS or its agents, except for such losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses which are caused by the negligence of Customer, a third party or DISCOVER. This indemnification shall survive the termination of the Agreement and/or this Addendum."

G. ADDENDUM NA TO THE MASTER DATA PROCESSING AGREEMENT DATED OCTOBER 1, 1998, SHALL BE AMENDED AS FOLLOWS:

1. Section B, Term, shall be amended by deleting the first sentence in its entirety and the following substituted in lieu thereof:

"The term of this Addendum shall commence October 1, 1998, and shall continue for the Initial Term Period from the 1st day of the calendar month following the above date or the date of Customer's Conversion to MPS for Intercept and Processor Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to three (3) years each."

2. Section C.1, ATM Access Fees, shall be deleted and the following new provision shall be substituted in lieu thereof:

"ATM Access Fees

(tiering cumulative)

-0 - 26 ATMS \$75/ATM/month

-26 and above ATMs \$50/ATM/month"

3. Section C.3.a, All Transactions, shall be deleted and the following new provision shall be substituted in lieu thereof:

"All Transactions \$.05/transaction"

4. Section D., Network Access Services, shall be amended by MPS crediting Customer \$150/month during the Initial Term to partially offset the STAR Network Monthly Access Fee specified in line nineteen (19), provided customer is assessed such fee by MPS.

5. Section E.3.a, Communication Controller Access Fees, shall be amended by MPS crediting Customer \$50/port/month during the Initial Term to partially offset the Remote Authorization Data Center Shared Use Port fee, provided Customer is assessed such fee by MPS.

6. By MPS crediting Customer \$400.00/month against Customer's telecommunication fees provided Customer is using satellite connectivity to MPS from at least six (6) different banking locations, and further provided that Customer is assessed such fee by MPS.

7. Section H.15 shall be deleted and replaced with the following:

"15. Customer agrees to be responsible for all direct costs and third party fees, including but not limited to those incurred by MPS, however such direct costs shall be limited to sixty (60) programming hours plus one (1) programming hour per ATM, multiplied by the number of Customer's then current number of ATMs, plus the programming hours for any written special requests made by Customer to MPS, in connection with and/or related to Customer's conversion from MPS at the termination of this Addendum and/or related to any conversion by Customer. This limitation shall apply, and shall be the total maximum direct costs for deconversion, regardless of the number of Addenda executed by the parties."

8. Section I, Indemnification, shall be amended by deleting the words "MPS or Customer, or their agents" in line twelve (12) and substituting the words "Customer or its agents" in lieu thereof, and further amended by adding the following to the end of the paragraph:

"MPS agrees to indemnify and hold harmless, Customer, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that Customer, its officers, employees, affiliates and agents may incur as a result of MPS' failure to comply with any provision of the Documentation, the Agreement or this Addendum or for any other reason in connection with the Intercept or Processor Services provided hereunder, whether incurred by or as a result of the action or failure to act of MPS or its agents, except for such losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, which are caused by the negligence of Customer. This indemnification shall survive the termination of the Agreement and/or this Addendum."

H. ADDENDUM TU DATED OCTOBER 1, 1998, SHALL BE AMENDED AS FOLLOWS:

1. Section B, Term, shall be amended by deleting the first sentence in its entirety and the following substituted in lieu thereof:

"The term of this Addendum shall commence on October 1, 1998 and shall continue for the Initial Term Period or until the termination of the agreement between MPS and American Express (whichever event shall earlier occur) from the 1st day of the calendar month following the above date or the date of American Express' acceptance of Licensee as a Member or the date of Licensee's conversion to MPS for American Express Gateway Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives

notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to three (3) years each."

2. Section C.2, Monthly Assessment Fee, shall be amended by MPS crediting Customer \$100/month during the Initial Term to partially offset the Monthly Assessment Fee, provided Customer's executed Addenda BV, CU, FU and KU are in full force and effect, and further provided Customer is assessed such fee by MPS.

3. Section D.12 shall be deleted and replaced with the following:

"Customer agrees to be responsible for all direct costs and third party fees, including but not limited to those incurred by MPS, at the termination of the Agreement, and/or related to Customer's conversion from MPS at any time. However, with respect to Customer's conversion from MPS upon termination of the entire Agreement, such direct costs shall be limited to sixty (60) programming hours plus one (1) programming hour per ATM, multiplied by the number of Customer's then current number of ATMs, plus the programming hours for any written special requests made by Customer to MPS. This limitation shall apply, and shall be the total maximum direct costs for deconversion, regardless of the number of Addenda executed by the parties."

4. Section E, Indemnification, shall be amended by deleting the words "MPS or Licensee, or their agents" beginning in line fourteen (14) and substituting the words "Licensee or its agents" in lieu thereof, and further amended by adding the following to the end of the paragraph:

"MPS agrees to indemnify and hold harmless, Customer, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that Customer, its officers, employees, affiliates and agents may incur as a result of MPS' failure to comply with any provision of the Agreement or this Addendum, whether incurred by or as a result of the action or failure to act of MPS or its agents, except for such losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses which are caused by the negligence of Customer, a third party or AMERICAN EXPRESS. This indemnification shall survive the termination of the Agreement and/or this Addendum."

Except as otherwise provided in this Amendment, the terms of the Agreement shall remain in full force and effect.

MIDWEST PAYMENT SYSTEMS, INC.

CUSTOMER: HERITAGE OAKS BANK

By: /s/ Barry L. Boerstler

By: /s/ Lawrence P. Ward

Name: BARRY L. BOERSTLER

Name: LAWRENCE P. WARD

Title: SENIOR VICE PRESIDENT

Title: PRESIDENT

Date: Nov 30, 1998

Date: 11-30-98

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ADDENDUM TO MASTER DATA PROCESSING AGREEMENT
CIRRUS SYSTEM GATEWAY SERVICES -- CORRESPONDING MEMBER

This Agreement shall be an Addendum to the Master Data Processing Agreement (the "Agreement"), dated October 1, 1998 between HERITAGE OAKS BANK ("Licensee"), having its principal offices at 545 Twelfth Street, Paso Robles, CA 93446, and MIDWEST PAYMENT SYSTEMS, INC. ("MPS").

I. MPS is a Principal Member of CIRRUS System, Incorporated ("CIRRUS"), in order to provide other depository institutions with access to the CIRRUS electronic funds transfer network.

II. MPS has the systems, computers and communications necessary to allow it to interface with the CIRRUS Switch for CIRRUS transactions.

III. Licensee desires to become a corresponding member of CIRRUS ("Corresponding Member") through sponsorship by MPS, and to route CIRRUS transactions to and from MPS.

NOW, THEREFORE, in consideration of the foregoing recitals and of mutual promises hereinafter set forth, the parties agree as follows:

A. DEFINITIONS

For the purposes of this Agreement, the following terms shall mean:

BY-LAWS means the By-Laws of CIRRUS as amended from time to time.

CIRRUS DOCUMENTATION means the By-Laws, Operating Rules, Identification Standards Manual, and other rules, regulations and procedures determined by MPS to be relevant to and affecting the Gateway Services from time to time.

CIRRUS SWITCH means the computer-based system provided by CIRRUS in accordance with the CIRRUS Operating Rules.

CORRESPONDING MEMBER CENTER ("CMC") means the processing center directly connected to MPS, which could be the Licensee's data center, MPS or a third party processor.

IDENTIFICATION STANDARDS MANUAL means the CIRRUS Identification Standards Manual as amended from time to time.

MEMBER means a a Principal Member or Corresponding Member of CIRRUS, as those terms are defined in the By-Laws.

OPERATING RULES means the Operating Rules of CIRRUS as amended from time to

time.

Except for the terms defined above, the capitalized terms herein shall have the same meanings as ascribed to them in the Agreement or the Definitions and General Services Addendum. In the event of a conflict between the Agreement and this Addendum, this Addendum shall control.

B. TERM

The term of this Addendum shall commence on October 1, 1998, and shall continue for a term of _____ year(s) from the 1st day of the calendar month following the above date or the date MPS has received notice from CIRRUS of its acceptance of Licensee as a Corresponding Member or the date of Licensee's conversion to MPS for Gateway Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to the Initial Term.

C. SERVICES AND FEES

Gateway Services shall mean the data processing systems and procedures provided by MPS to facilitate ATM sharing between Licensee and/or other CIRRUS Members. Licensee's CIRRUS transactions received from the CIRRUS Switch or other MPS facilities are routed to the Licensee's CMC for authorization or, optionally, are authorized using MPS stand-in processing facilities. Other Members' transactions initiated at Licensee's terminals and received by MPS from Licensee's CMC are routed to the CIRRUS Switch or, at the option of MPS, routed directly to another Member.

MPS is the message processing entity positioned between the Licensee and the CIRRUS Switch or other Members. The transaction record format between the Licensee's CMC and MPS will be the MPS version of ANSI X9.2 or such other format as may be mutually agreed upon between MPS and Licensee.

Licensee agrees to pay the following fees for the Gateway Services set forth below:

- 1) Set Up Fee \$500
- 2) Disconnect Fee \$500

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- 2) Monthly Assessment Fee \$150/month plus the current monthly fee specified by CIRRUS for a single non bank holding company Corresponding Member (as also referenced in Section C.6)

- 3) Adjustment Fee
This fee applies to every CIRRUS adjustment submitted by or received

by MPS on behalf of Licensee

-- Adjustment fee \$5.00/adjustment (plus current CIRRUS adjustment fee)

4) Base Licensee Transaction Fee (Paid by Licensee each time Licensee's cardholder uses a terminal of a Member for a CIRRUS transaction) excluding any interchange surcharge fee charged by CIRRUS which will be added to this base fee and assessed accordingly

-- Issuer Transaction Fee (Applicable CIRRUS issuer interchange fee plus CIRRUS Switch fee plus \$.07)/ transaction

5) Documentation Fees

-- CIRRUS Documentation \$75/copy
-- Amendments/Supplements \$50/copy

6) CIRRUS Fees

All CIRRUS fees, assessments, and penalties (excluding the monthly CIRRUS Corresponding Member fee, CIRRUS adjustment fees, CIRRUS Issuer Switch fees and CIRRUS interchange fees which are included as part of the fees charged to Licensee under Sections C.1 through C.5)

Licensee acknowledges and agrees that CIRRUS will pay MPS interchange fees for all Licensee's CIRRUS acquirer transactions. MPS will pay Licensee the applicable CIRRUS acquirer interchanger fee each time a CIRRUS transaction by a cardholder of another Member is authorized and completed or denied on a terminal of Licensee provided CIRRUS pays MPS for such transactions.

Licensee agrees to pay MPS \$.07 per every Licensee's acquirer transaction processed by MPS in connection with these Gateway Services. All interchange fees listed in this paragraph will be reduced by the Plus System, Inc. acquirer fee as specified by Plus System, Inc. for a transaction processed through the Plus System, Inc./CIRRUS common interface switch and by any applicable gateway transaction fee assessed to MPS by CIRRUS in connection with these CIRRUS acquirer transactions.

D. GENERAL PROVISIONS

1) MPS will sponsor Licensee as a Corresponding Member of CIRRUS in accordance with the procedures set out in the CIRRUS By-Laws and Operating Rules.

2) Licensee acknowledges and hereby agrees that MPS may choose the "least cost method" of routing Licensee's CIRRUS transactions initiated on terminals of other MPS customers having similar "least cost method" arrangements with

MPS. Conversely, or, if Licensee does not have any CIRRUS cardholders, Licensee also agrees to accept lesser interchange fees for CIRRUS transactions initiated on its terminals by cardholders of other MPS customers which have similar "least cost method" arrangements with MPS. If MPS chooses to use the "least cost method," MPS will make available the applicable rates from time to time.

3) Licensee hereby agrees to take all steps as may reasonably be necessary to settle with MPS for CIRRUS transactions involving its cardholders and its terminals.

4) MPS will provide Licensee within 30 days of the effective date of this Addendum a copy of the CIRRUS Documentation in effect on the date of this Agreement. Licensee also understands that such documentation may be amended from time to time. Licensee agrees to review the CIRRUS Documentation upon receipt thereof and to abide by and fully comply with the CIRRUS Documentation as may be in effect from time to time, and to perform and fulfill any and all obligations and responsibilities, and discharge any and all duties and liabilities, relating to MPS, CIRRUS or its Members to which it may be subject in accordance with such CIRRUS Documentation, or resolutions adopted by the CIRRUS Board of Directors, or which may arise in any other manner or from any other source related to the Gateway

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services.

5) Licensee agrees that, upon request by MPS, it will periodically provide to MPS certification in writing of its compliance with all CIRRUS Operating Rules applicable to Licensee, or to MPS as sponsor of Licensee, and with the CIRRUS Identification Standards Manual. On or before 30 days following the date of this Addendum, and on or before October 18 of each calendar year, Licensee shall provide to MPS an audit of its outstanding cards and a certificate of its card count in accordance with the Operating Rules.

6) Licensee will provide personnel, one of whom shall be a management level technical interface person, to monitor, oversee and maintain its participation in CIRRUS. From time to time, MPS will require communication with Licensee's personnel, and Licensee agrees to provide names, telephone number(s), and schedules of such personnel throughout the period of the Licensee's Corresponding Membership in CIRRUS.

7) MPS will make available to Licensee activity files in MPS format of its CIRRUS transactions, unless similar information is provided by MPS through other services provided to Licensee.

8) MPS will not provide: (i) routing of activity files received from CIRRUS to Licensee; (ii) implementation of any of Licensee's BINs at CIRRUS; (iii) paper based adjustments; or (iv) any other files or reports not specifically described above.

9) Licensee agrees to allow the auditors of MPS or CIRRUS to review the files held and procedures followed by Licensee in connection with the Gateway Services.

10) Licensee agrees to be responsible for all direct and indirect costs

(including but not limited to those incurred by MPS) in connection with and/or related to Licensee's conversion from MPS at the termination of this Addendum and/or related to any conversion by Licensee in connection with its CMC after Licensee's initial conversion to MPS.

E. INDEMNIFICATION

Licensee has or will execute (in addition to this Addendum) the CIRRUS SYSTEM, INC. Corresponding Membership Application and Agreement among Licensee, MPS and CIRRUS. Licensee agrees to be bound by all the terms and conditions of such agreement, as it may be amended from time to time. Licensee agrees to pay all fees, assessments and penalties as they are currently in effect or may be changed from time to time, imposed by CIRRUS, whether billed directly to Licensee by CIRRUS or through MPS except for any fees specifically excluded in Section C.6, CIRRUS fees. MPS may allocate any such fees, fines, assessments or penalties in such manner as it deems advisable in its sole discretion. Licensee agrees to indemnify and hold harmless, MPS, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that MPS, its officers, employees, affiliates and agents may incur as a result of Licensee's failure to comply with any provision of the CIRRUS Documentation, the Agreement or this Addendum or for any other reason in connection with the Gateway Services provided hereunder, whether incurred by or as a result of the action or failure to act of MPS or Licensee, or their agents. This indemnification shall survive the termination of the Agreement and/or this Addendum.

F. MODIFICATION

In the event of any changes or modifications to the Operating Rules which affect the responsibilities of a Principal Member of CIRRUS, MPS may amend this Agreement upon 30 days prior written notice to Licensee. MPS may change the fees and charges at any time upon a minimum of 30 days prior written notice to Licensee. In the event such change in fees is in excess of the limit set forth in the Agreement, the Licensee shall have the right to terminate this Addendum by giving written notice thereof within 30 days after the date of notice of change in fees and charges from MPS. Simultaneously therewith, Licensee shall give the necessary notice to CIRRUS of termination of its membership in CIRRUS as a Corresponding Member of MPS. Termination of this Addendum shall be effective the later of 30 days from receipt by MPS of notice of termination, or the effective date of termination as set by CIRRUS, but in no event later than 6 months from the date of Licensee's notice of termination.

THE PARTIES ACKNOWLEDGE THAT THE MASTER DATA PROCESSING AGREEMENT BETWEEN THEM, AS SUPPLEMENTED BY THIS AND OTHER ADDENDA, SET FORTH THE COMPLETE AND EXCLUSIVE AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SERVICES PROVIDED AND UNLESS SPECIFICALLY PROVIDED FOR IN THIS ADDENDUM, THE SERVICES DESCRIBED HEREIN SHALL NOT INCLUDE ANY OF THE SERVICES OUTLINED IN THE DEFINITIONS AND GENERAL SERVICES ADDENDUM OR OTHER ADDENDA WHICH MAY BE A PREREQUISITE FOR THE SERVICES DESCRIBED HEREIN.

By: /s/ Barry L. Boerstler

Name: Barry L. Boerstler

Title: Senior Vice President

Date: Nov 30 1998

LICENSEE

By: /s/ Lawrence P. Ward

Name: Lawrence P. Ward

Title: President

Date: 11-30-98

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ADDENDUM CU TO MASTER DATA PROCESSING AGREEMENT
PLUS SYSTEM GATEWAY SERVICES -- SPONSORED ATM LICENSEE MEMBER

This Agreement shall be an Addendum to the Master Data Processing Agreement (the "Agreement"), dated October 1, 1998 between HERITAGE OAKS BANK ("Licensee"), having its principal offices at 545 Twelfth Street, Paso Robles, CA 93446, and MIDWEST PAYMENT SYSTEMS, INC. ("MPS").

- I. The Fifth Third Bank ("Bank") is a Proprietary Member of PLUS System, Inc. ("PSI"), in order to provide other depository institutions with access to the PSI electronic funds transfer network.
- II. Bank has contracted with MPS for it to provide the systems, computers and communications necessary to allow it to interface with the PSI Switch for PSI transactions.
- III. Licensee desires to become a sponsored "ATM Category B Licensee Member" ("Sponsored Member"), as such term is defined in the By-laws and Operating Regulations, of PSI through sponsorship by Bank, and to route PSI transactions to and from MPS.

NOW, THEREFORE, in consideration of the foregoing recitals and of mutual promises hereinafter set forth, the parties agree as follows:

A. DEFINITIONS

For the purposes of this Agreement, the following terms shall mean:

BY-LAWS means the By-Laws of PSI as amended from time to time.

PSI DOCUMENTATION means the By-Laws, Operating Regulations, and other rules, regulations and procedures identified by MPS to be relevant to and affecting the Gateway Services from time to time.

PSI SWITCH mean the computer-based system provided by PSI in accordance with the PSI Operating Regulations.

SPONSORED MEMBER CENTER ("SMC") means the processing center directly connected to MPS, which could be the Licensee's data center, MPS or a third party processor.

MEMBER means an eligible organization that is a Proprietary Member or Sponsored Member of PSI, as those terms are defined in the By-Laws.

OPERATING REGULATIONS means the Operating Regulations of PSI as amended from time to time.

Except for the terms defined above, the capitalized terms herein shall have the same meanings as ascribed to them in the Agreement or the Definitions and General Services Addendum. In the event of a conflict between the Agreement and this Addendum, this Addendum shall control.

B. TERM

The term of this Addendum shall commence on October 1, 1998, and shall continue for a term of _____ year(s) from the 1st day of the calendar month following the above date or the date Bank has received notice from PSI of its acceptance of Licensee as a Sponsored Member or the date of Licensee's conversion to MPS for Gateway Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to the Initial Term.

C. SERVICES AND FEES

Gateway Services shall mean the data processing systems and procedures provided by MPS to facilitate ATM sharing between Licensee and/or other PSI Members. Other Members' transactions initiated at Licensee's terminals and received by MPS from Licensee's SMC are routed to the PSI Switch or, at the option of MPS, routed directly to another Member or to a gateway link connected to the PSI switch.

MPS is the message processing entity positioned between the Licensee and the PSI Switch or other Members. The transaction record format between the Licensee's SMC and MPS will be the MPS version of ANSI X9.2 or such other format as may be mutually agreed upon between MPS and Licensee.

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Licensee agrees to pay the following fees for the Gateway Services set forth

below:

- 1) Set Up Fee \$500
Disconnect Fee \$500

- 2) Monthly Assessment Fee \$150/month plus the current monthly fee specified by PSI for a non affiliate ATM Category B Licensee Member (as also referenced in Section C.5)

- 3) Adjustment Fee
This fee applies to every PSI adjustment submitted by or received by MPS on behalf of Licensee

-- Adjustment fee \$5.00/adjustment (plus current PSI adjustment fee)

- 4) Documentation Fees

-- PSI Documentation \$75/copy
-- Amendments/Supplements \$50/copy

- 5) PSI Fees
All PSI fees, assessments, and penalties (excluding the monthly PSI ATM Category B Licensee Member fee and PSI adjustment fees which are included as part of the fees charged to Licensee under Sections C.1 through C.4)

Licensee acknowledges and agrees that PSI shall pay Bank interchange fees for all Licensee's PSI acquirer transactions. MPS will pay Licensee the applicable PSI ATM member (acquirer) income fee each time a PSI transaction by a cardholder of another Member is authorized and completed or denied on a terminal of Licensee provided PSI pays Bank for such transactions. Licensee agrees to pay MPS \$.07 per every Licensee's acquirer transaction processed by MPS in connection with these Gateway Services. All income (interchange) fees listed in this paragraph will be reduced by the PSI acquirer fee as specified by PSI for a transaction processed through the PSI/CIRRUS Systems, Inc. common interface switch and by any applicable gateway transaction fee assessed to MPS or Bank by CIRRUS Systems, Inc. in connection with these PSI acquirer transactions.

D. GENERAL PROVISIONS

- 1) MPS will sponsor Licensee as a Sponsored Member of PSI in accordance with the procedures set out in the PSI By-Laws and Operating Regulations.

- 2) Licensee acknowledges and hereby agrees that MPS may choose the "least cost method" of routing Licensee's PSI transactions to other MPS customers having similar "least cost method" arrangements with MPS. Licensee agrees to accept lesser interchange fees for PSI transactions initiated on its terminals by cardholders of other MPS customers which have "least cost method" arrangements with MPS. If MPS chooses to use the "least cost method," MPS will make available the applicable rates from time to time.

- 3) Licensee hereby agrees to take all steps as may reasonably be necessary to settle with MPS for PSI transactions involving its terminals.

- 4) MPS will provide Licensee within 30 days of the effective date of this Addendum a copy of the PSI Documentation in effect on the date of this Agreement. Licensee also understands that such documentation may be amended from time to time. Licensee agrees to review the PSI Documentation upon

receipt thereof and to abide by and fully comply with the PSI Documentation as may be in effect from time to time, and to perform and fulfill any and all obligations and responsibilities, and discharge any and all duties and liabilities, relating to MPS, PSI or its Members to which it may be subject in accordance with such PSI Documentation, or resolutions adopted by the PSI Board of Directors, or which may arise in any other manner or from any other source related to the Gateway Services.

5) Licensee agrees that, upon request by MPS, it will periodically provide to MPS certification in writing of its compliance with all PSI Operating Regulations applicable to Licensee, or to MPS or Bank as sponsor of Licensee.

6) Licensee will provide personnel, one of whom shall be a management level technical interface person, to monitor, oversee and maintain its participation in PSI. From time to time, MPS will require communication with Licensee's personnel, and Licensee agrees to provide names, telephone number(s), and schedules of such personnel throughout the period of the Licensee's Sponsored Membership in PSI.

7) MPS will make available to Licensee activity files in a MPS format of its PSI transactions, unless similar information is provided by MPS through other services provided to Licensee.

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8) MPS will not provide: (i) routing of activity files received from PSI to Licensee; (ii) paper based adjustments; or (iii) any other files or reports not specifically described above.

9) Licensee agrees to allow the auditors of MPS or PSI to review the files held and procedures followed by Licensee in connection with the Gateway Services.

10) Licensee agrees to be responsible for all direct and indirect costs (including but not limited to those incurred by MPS) in connection with and/or related to Licensee's conversion from MPS at the termination of this Addendum and/or related to any conversion by Licensee in connection with its SMC after Licensee's initial conversion to MPS.

E. INDEMNIFICATION

Licensee has or will execute (in addition to this Addendum) the Category "B" ATM Licensee Agreement in PLUS System, Inc. among Licensee, Bank and PSI. Licensee agrees to be bound by all the terms and conditions of such agreement, as it may be amended from time to time. Licensee agrees to pay all fees, fines, penalties and assessments as they are currently in effect or may be changed from time to time, imposed by PSI, whether billed directly to Licensee by PSI or through MPS or Bank except for any fees specifically excluded in Section C.5, PSI fees. MPS, on behalf of itself or Bank, may allocate any such fees, fines, assessments or penalties in such manner as it deems advisable in its sole discretion. Licensee agrees to indemnify and hold harmless, MPS, Bank, their respective officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that MPS, Bank, their respective officers, employees, affiliates and agents may incur as a result of Licensee's failure to comply with any provision of the

PSI Documentation, the Agreement or this Addendum or for any other reason in connection with the Gateway Services provided hereunder, whether incurred by or as a result of the action or failure to act of MPS, Bank or Licensee, or their agents. This indemnification shall survive the termination of the Agreement and/or this Addendum.

F. MODIFICATION

In the event of any changes or modifications to the Operating Regulations which affect the responsibilities of a Proprietary Member of PSI, MPS may amend this Agreement upon 30 days prior written notice to Licensee. MPS may change the fees and charges at any time upon a minimum of 30 days prior written notice to Licensee. In the event such change in fees is in excess of the limit set forth in the Agreement, the Licensee shall have the right to terminate this Addendum by giving written notice thereof to MPS within 30 days after the date of notice of change in fees and charges from MPS. Simultaneously therewith, Licensee shall give the necessary notice to PSI of termination of its membership in PSI as a Sponsored Member of Bank. Termination of this Addendum shall be effective the later of 30 days from receipt by MPS of notice of termination, or the effective date of termination as set by PSI, but in no event later than 6 months from the date of Licensee's notice of termination.

THE PARTIES ACKNOWLEDGE THAT THE MASTER DATA PROCESSING AGREEMENT BETWEEN THEM, AS SUPPLEMENTED BY THIS AND OTHER ADDENDA, SET FORTH THE COMPLETE AND EXCLUSIVE AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SERVICES PROVIDED AND UNLESS SPECIFICALLY PROVIDED FOR IN THIS ADDENDUM, THE SERVICES DESCRIBED HEREIN SHALL NOT INCLUDE ANY OF THE SERVICES OUTLINED IN THE DEFINITIONS AND GENERAL SERVICES ADDENDUM OR OTHER ADDENDA WHICH MAY BE A PREREQUISITE FOR THE SERVICES DESCRIBED HEREIN.

MIDWEST PAYMENT SERVICES, INC.

By:/s/ Barry L. Boerstler

Name: Barry L. Boerstler

Title: Senior Vice President

Date: Nov 30 1998

LICENSEE: HERITAGE OAKS BANK

By:/s/ Lawrence P. Ward

Name: Lawrence P. Ward

Title: President

Date: 11-30-98

ADDENDUM FS TO MASTER DATA PROCESSING AGREEMENT
VISA CHECK CARD PROGRAM SERVICES

This Agreement shall be an Addendum to the Master Data Processing Agreement ("the Agreement"), dated October 1, 1998 between HERITAGE OAKS BANK ("Licensee"), having its principal offices at 545 Twelfth Street, Paso Robles, CA 93446, and MIDWEST PAYMENT SYSTEMS, INC. ("MPS").

I. Fifth Third Bank of Cincinnati, Ohio ("Fifth Third") is a Member of Visa U.S.A. ("VISA") and provides other depository institutions access to VisaNet as defined in the Operating Rules.

II. MPS has the systems, computers and communications necessary to allow it to interface with the VISA Switch for VisaNet transactions.

III. Licensee desires to use the systems, computers, and communication facilities of MPS to interface with the VISA Switch and other facilities connected to MPS to provide access (in conjunction with MPS standards) to VisaNet for certain of its customers' deposit accounts through Licensee's designated VISA plastics (cards) and to provide special card and account processing as described under Check Card Program Services.

IV. Licensee warrants that it is a Member of VISA as this term is defined in the By-Laws.

NOW, THEREFORE, in consideration of the foregoing recitals and of mutual promises hereinafter set forth, the parties agree as follows:

A. DEFINITIONS

For the purposes of this Agreement, the following terms shall mean:

BY-LAWS means the Visa U.S.A. Inc. By-Laws/Operating Regulations as amended from time to time.

MEMBER means an organization that is a Member, or other entity as those terms are defined in the By-Laws and who is authorized to participate in VisaNet.

OPERATING RULES means the Visa U.S.A. Inc. By-Laws/Operating Regulations and the Visa International Operating Regulations as amended from time to time.

VISA DOCUMENTATION means the sections of the By-Laws, Operating Rules, Operating Rules, and other rules, regulations and procedures (including MPS standards) determined by MPS to be relevant to and affecting the Check Card Program Services from time to time.

VISA SWITCH means the computer-based system provided by VISA in accordance with the Operating Rules for VisaNet.

Except for the terms defined above, the capitalized terms herein shall have the same meanings as ascribed to them in the Agreement or the Definitions and General Services Addendum. In the event of a conflict between the Agreement and this Addendum, this Addendum shall control.

B. TERM

The term of this Addendum shall commence on October 1, 1998, and shall continue for a term of ____ year(s) from the 1st day of the calendar month following the above date or the date MPS has received notice from VISA of its acceptance of Licensee as a Member or the date of Licensee's conversion to MPS for Check Card Program Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to the Initial Term.

C. SERVICES AND FEES

CHECK CARD PROGRAM SERVICES shall mean the data processing systems and procedures provided by MPS to facilitate Licensee's card authorization and settlement in VisaNet for Licensee's specified VISA cards with the consequent funds utilized being debited from Licensee's designated customers' deposit accounts. Licensee's VISA cards may additionally be processed under other services contracted through MPS. Licensee's VisaNet transactions received from the VISA Switch or other MPS facilities or facilities connected to MPS are authorized using card management and card processing facilities according to MPS standards. Authorization can occur at VisaNet if the authorization link between MPS and the VISA Switch is inoperational.

Licensee agrees to pay MPS the following fees for the Check Card Program Services as set forth below:

- | | |
|---|----------------------|
| 1) Set Up Fee | \$5,000 |
| 2) Card Management file conversion (Optional) | \$2,000 |
| 3) Transaction Fees | |
| a) electronic authorization fee | \$.10/authorization |
| b) operator assisted authorization fee | \$.65/authorization |
| c) remote item posting | \$.11/item |
| c) issuer switch/access fee | \$.026/authorization |
| 4) Card Management (Cluster) Services | |
| a) Plastic debit or credit card fee | \$.05/cluster/month |

- b) Account file residency (fee assessed for credit and deposit accounts) \$.11/account/month
- c) Credit account statement-to-date fee
CRT lookup for statement-to-date activity of credit account \$.09/credit account/month
- 5) Credit account monthly maintenance fee \$.07/credit account/month
- 6) Credit Card embossing and encoding fees
- a) Program Setup \$225.00
- b) Card Production \$0.60/card
Card production includes:
-Complete inventory and control of plastics
-Card embossing, tipping, and encoding
-Card inserting and mailing
-MPS standard forms and envelopes
-Postage expense additional
- c) Premailer Inserting/Mailing \$0.15/Premailer
-Includes MPS standard forms and envelopes
-Postage expense additional
- d) Special Card Handling \$5.00/card
Any special card handling outside the normal processing procedures (i.e., card pulls, rushes, etc.) will incur a special card handling fee.
- e) Graphic Reproduction (Graphix) Quoted
Graphic Reproduction services are available including the institution's name on the front of the card and ATM logos on the back. These fees will be provided as necessary.
- 7) Statement Printing Fee (Optional) \$.15/statement
- 8) Chargeback/Representment Fee \$5.00/chargeback or representment
- 9) Draft Retrieval Requests \$2.00/request
- Each draft retrieval request received by MPS on behalf of the Licensee will be assessed the draft retrieval request fee.
- This fee is in addition to any fee assessed by VISA.
- 10) Online Adjustment System Fees
- a) File residency \$100.00/month
- b) CRT file updates \$.10/update
- c) File setup \$400
- 11) Operational Support Standard Hourly Rate
Including any time required by MPS personnel to support Licensee with lost and stolen processing in connection with Licensee's VISA cards or Licensee's customers.

Notwithstanding the foregoing, the minimum monthly fee payable to MPS for the Check Card Program Services set forth in this Addendum shall be \$200.00.

12) Other Services

Quoted

D. GENERAL PROVISIONS

1) MPS will process Licensee as a Member in accordance with the procedures set out in the By-Laws and Operating Rules and VISA Documentation and this Addendum.

2) Licensee assumes all responsibility for collecting funds associated with all use of Licensee's VISA cards.

3) Licensee hereby agrees to take all steps as may be necessary to settle with MPS for VisaNet transactions involving its cardholders. As part of this settlement, Licensee agrees to maintain at Fifth Third a clearing account which will be a non-interest bearing account. Licensee also agrees to maintain adequate collected funds in this account to cover daily settlement (involving the use of Licensee's VISA cards) assessed by MPS.

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4) Licensee understands that VISA Documentation may be amended from time to time. Licensee agrees to review the VISA Documentation and to abide by and fully comply with the VISA Documentation as may be in effect from time to time, and to perform and fulfill any and all obligations and responsibilities, and discharge any and all duties and liabilities, relating to MPS, VISA or its Members to which it may be subject in accordance with such VISA Documentation, By-Laws, Operating Rules, or resolutions adopted by the VISA Board of Directors, or which may arise in any other manner or from any other source related to the Check Card Program Services.

5) Licensee agrees that, upon request by MPS, it will periodically provide to MPS certification in writing of its compliance with all VISA Operating Rules applicable to Licensee, or to MPS as processor for Licensee, and with the VISA Documentation.

6) MPS will make available to Licensee activity files in a MPS format reflecting customer's card and account processing.

7) MPS will not provide: (i) routing of activity files received from VISA to Licensee; (ii) any other files or reports not specifically described above.

8) Licensee will maintain a non-interest bearing checking account which can be debited by MPS to settle funds for Licensee's VISA cards which don't have a corresponding deposit account.

9) Licensee is solely responsible for its participation; and for any liability arising from its VISA membership.

10) Licensee agrees to be responsible for all direct and indirect costs (including but not limited to those incurred by MPS) in connection with and/or related to Licensee's conversion from MPS at the termination of this Addendum and/or related to any conversion by Licensee.

11) Licensee shall be responsible for the establishment, maintenance and written notification to MPS of cardholder authorization limits, and other terms and conditions applicable to transactions effected in accordance with Licensee's cardholder agreements.

12) Should Customer give notice of termination to MPS at any time, Customer warrants that both before entering into any agreement with any third party for the Services provided to Customer by MPS as specified in this Agreement (including all exhibits and Addenda hereto and all documents and materials referenced herein), MPS shall have the right of first refusal of entering into agreements with Customer for all such Services under the same terms and conditions (except for the length of the term, which shall not be less than the length of the term of the Agreement for which Customer is giving termination notice to MPS) in lieu of Customer entering into such agreement with a third party.

E. SERVICES AND EXPENSES NOT PROVIDED BY MPS

Certain services and expenses will be the sole responsibility of Licensee and include but are not limited to the following:

- 1) Costs incurred by MPS for contracting Licensee in performing the Services.
- 2) All postage costs associated with the Services provided herein.
- 3) All costs associated with the purchase, design, and creation of the cards.
- 4) Data entry of cardholder and/or account information.
- 5) All forms and envelopes (minimum postage expense is cost for one ounce of U.S. first class postage per unit).
- 6) Communication lines to MPS for remote processing.
- 7) Communication and hardware costs, individual terminals or modems.
- 8) All VISA fees relating to Licensee's processing plan and/or connection with Licensee's participation in VisaNet and with VISA.
- 9) Settlement costs for interchange. Licensee will provide and pay standard VISA Interchange fees relative to Licensee's cardholder and merchant transaction volume.
- 10) All legal compliance and Operating Rules and By-Laws compliance for Licensee's cardholders and merchants.
- 11) Additional exception processing services.
- 12) External costs for interchange settlement.
- 13) Physical magnetic tape or disk file output for Licensee's use.
- 14) Costs associated with RJE.

F. INDEMNIFICATION

Licensee agrees to pay all fees, assessments and penalties as they are currently in effect or may be changed from time to time, imposed by VISA, whether billed directly to Licensee by VISA or through MPS or Fifth Third. MPS may allocate any such fees, fines, assessments or penalties in such manner as it deems advisable in its sole discretion. Licensee agrees to indemnify and hold harmless, MPS, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that MPS, its officers, employees, affiliates and agents may incur as a result of Licensee's failure to comply with any provision of the VISA Documentation, the Agreement or this Addendum or for any other reason in connection with the Check Card Program Services provided hereunder, whether incurred by or as a result of the action or failure to act of MPS or Licensee, or their agents. This indemnification shall survive the termination of the Agreement and/or this addendum.

G. MODIFICATION

In the event of any changes or modifications to the VISA Documentation which affect the responsibilities of a Member, MPS may amend this Agreement upon 30 days prior written notice to Licensee. MPS may change the fees and charges at any time upon a minimum of 30 days prior written notice to Licensee. In the event such change in fees is in excess of the limit set forth in the Agreement, the Licensee shall have the right to terminate this Addendum by giving written notice thereof within 30 days after the date of notice of change in fees and charges from MPS. Simultaneously therewith, Licensee shall give the necessary notice to VISA of termination or change in sponsorship of its membership in VISA as a Member. Termination of this Addendum shall be effective the later of 30 days from receipt by MPS of notice of termination, or the effective date of termination as set by VISA, but in no event later than 6 months from the date of Licensee's notice of termination.

THE PARTIES ACKNOWLEDGES THAT THE MASTER DATA PROCESSING AGREEMENT BETWEEN THEM, AS SUPPLEMENTED BY THIS AND OTHER ADDENDA, SET FORTH THE COMPLETE AND EXCLUSIVE AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SERVICES PROVIDED AND UNLESS SPECIFICALLY PROVIDED FOR IN THIS ADDENDUM, THE SERVICES DESCRIBED HEREIN SHALL NOT INCLUDE ANY OF THE SERVICES OUTLINED IN THE DEFINITIONS AND GENERAL SERVICES ADDENDUM OR OTHER ADDENDA WHICH MAY BE A PREREQUISITE FOR THE SERVICES DESCRIBED HEREIN.

MIDWEST PAYMENT SYSTEMS, INC.

By: /s/ BARRY L. BOERSTLER

Name: Barry L. Boerstler

Title: Senior Vice President

Date: Nov. 30, 1998

LICENSEE:

By: /s/ LAWRENCE P. WARD

Name: Lawrence P. Ward

Title: President

Date: 11-30-98

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ADDENDUM FU TO MASTER DATA PROCESSING AGREEMENT
VISA ATM NETWORK GATEWAY SERVICES - ATM ACQUIRER MEMBER

This Agreement shall be an Addendum to the Master Data Processing Agreement (the "Agreement"), dated October 1, 1998 between HERITAGE OAKS BANK ("Licensee"), having its principal offices at 545 Twelfth Street, Paso Robles, CA 93446, and MIDWEST PAYMENT SYSTEMS, INC. ("MPS").

I. Fifth Third Bank of Cincinnati, Ohio ("Fifth Third"), is a Member of Visa U.S.A. Inc. ("VISA") and provides other depository institutions access to the Visa ATM Network ("VAN").

II. MPS has the systems, computers and communications necessary to allow it to interface with the VISA Switch for VAN transactions.

III. Licensee desires to use the systems, computers, and communication facilities of MPS to interface with the VISA Switch to allow the participation in VAN of its cash disbursement automated teller machines and/or scrip dispensers and/or other devices (collectively referred to as "ATM").

IV. Licensee warrants that it has VISA approval to participate in VAN.

NOW, THEREFORE, in consideration of the foregoing recitals and of mutual promises hereinafter set forth, the parties agree as follows:

A. DEFINITIONS

For the purposes of this Agreement, the following terms shall mean:

BY-LAWS means the Visa U.S.A. Inc. By-Laws/Operating Regulations as amended from time to time.

CORRESPONDING MEMBER CENTER ("CMC") means the processing center directly connected to MPS, which should be the Licensee's data center, MPS or a third party processor.

MEMBER means an organization that is a Member, or other entity as those terms

are defined in the By-Laws and who is authorized to participate in VAN.

OPERATING RULES means the Visa U.S.A. Inc. By-Laws/Operating Regulations and the Visa International Operating Regulations as amended from time to time.

VISA DOCUMENTATION means the sections of the By-Laws, Operating Rules, and other rules, regulations and procedures (including MPS standards) determined by MPS to be relevant to and affecting the Gateway Services from time to time.

VISA SWITCH means the computer-based system provided by VISA in accordance with the Operating Rules for VAN.

Except for the terms defined above, the capitalized terms herein shall have the same meanings as ascribed to them in the Agreement or the Definitions and General Services Addendum. In the event of a conflict between the Agreement and this Addendum, this Addendum shall control.

B. TERM

The term of this Addendum shall commence on October 1, 1998, and shall continue for a term of _____ years from the 1st day of the calendar month following the above date or the date MPS has received notice from VISA of its acceptance of Licensee as a Member or the date of Licensee's conversion to MPS for Gateway Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to the Initial Term.

C. SERVICES AND FEES

GATEWAY SERVICES shall mean the data processing systems and procedures provided by MPS to facilitate ATM sharing in VAN between Licensee and/or other Members. Other Members' VAN transactions initiated at Licensee's terminals and received by MPS from Licensee's CMC are routed to the VISA Switch or, at the option of MPS, routed directly to another Member.

1-FU

MPS is the message processing entity positioned between the Licensee and the VISA Switch or other Members. The transaction record format between the Licensee's CMS and MPS will be the MPS version of ANSI X9.2 or such other format as may be mutually agreed upon between MPS and Licensee.

Licensee agrees to pay the following fees for the Gateway Services set forth below:

- | | |
|--|-------------|
| 1) Set Up Fee | \$500 |
| Disconnect Fee | \$500 |
| 2) Monthly Assessment Fee | \$150/month |
| 3) Documentation Fee | |
| - VISA Documentation | \$75/copy |
| - Amendments/Supplements | \$50/copy |
| 4) Adjustment Fee \$5.00/adjustment (plus current VAN adjusted fees) | |

This fee applies to every VAN adjustment submitted by or received by MPS on behalf of Member institutions

- 5) VAN Fees All VAN and/or VISA fees, assessments, and penalties (excluding VAN adjustment fees which are included as part of the fees charged to Licensee under Sections C.1 through C.4)

Licensee acknowledges and agrees that VISA will pay interchange and other fees to MPS or Fifth Third for all Licensee's VAN acquirer transactions. MPS will pay Licensee the applicable Van acquirer interchange fee each time a VAN transaction by a cardholder of another Member is authorized and completed or denied on a terminal of Licensee provided VISA pays MPS for such transactions. Licensee agrees to pay MPS \$.07 per every Licensee's acquirer transaction processed by MPS in connection with the Gateway Services. All interchange fees in this paragraph shall be reduced by any third party switch or surcharge fee assessed to MPS or Fifth Third.

D. GENERAL PROVISIONS

- 1) MPS will process Licensee as a Member in accordance with the procedures set out in the By-Laws and Operating Rules and MPS's standards.
- 2) Licensee agrees to accept lesser interchange fees for VAN transactions initiated on its terminals by cardholders of other MPS customers which have similar "least cost method" arrangements with MPS. If MPS chooses to use the "least cost method," MPS will make available the applicable rates from time to time.
- 3) Licensee hereby agrees to take all steps as may reasonably be necessary to settle with MPS for VAN transactions involving its terminals.
- 4) MPS will provide Licensee within 30 days of the effective date of this Addendum a copy of the VISA Documentation in effect on the date of this Agreement. Licensee also understands that such documentation may be amended from time to time. Licensee agrees to review the VISA Documentation upon receipt thereof and to abide by and fully comply with the VISA Documentation as may be in effect from time to time, and to perform and fulfill any and all obligations and responsibilities, and discharge any and all duties and liabilities, relating to MPS, VISA or its Members to which it may be subject in accordance with such VISA documentation, By-Laws, Operating Rules, or resolutions adopted by the VISA Board of Directors, or which may arise in any other manner or from any other source related to the Gateway Services.
- 5) Licensee agrees that, upon request of MPS, it will periodically provide to MPS certification in writing of its compliance with all VISA Operating Rules applicable to Licensee, or to MPS as processor for Licensee, and with the VISA Documentation.
- 6) Licensee will provide personnel, one of whom shall be a management level technical interface person, to monitor, oversee and maintain its participation in VAN. From time to time, MPS will require communication with Licensee's personnel, and Licensee agrees to provide names, telephone number(s), and schedules of such personnel throughout the period of the Licensee's membership in VAN.
- 7) MPS will make available to Licensee activity files in a MPS format of its VAN transactions, unless similar information is provided by MPS through other

services provided to Licensee.

2-FU

8) MPS will not provide: (i) routing of activity files received from VISA to Licensee; (ii) paper based adjustments; or (iii) any other files or reports not specifically described above.

9) Licensee agrees to allow the auditors of MPS or VISA to review the files held and procedures followed by Licensee in connection with the Gateway Services.

10) Licensee agrees to be responsible for all direct and indirect costs (including but not limited to those incurred by MPS) in connection with and/or related to Licensee's conversion from MPS at the termination of this Addendum and/or related to any conversion by Licensee in connection with its CMC after Licensee's initial conversion to MPS.

E. INDEMNIFICATION

Licensee has or will execute the Visa ATM Acquirer Compliance Form and the Visa ATM Service Confirmation Form and other required VAN forms which may change from time to time with VISA. Licensee agrees to pay all fees, assessments and penalties as they are currently in effect or may be changed from time to time, imposed by VISA, whether billed directly to Licensee by VISA or through MPS or Fifth Third. MPS may allocate any such fees, fines, assessments or penalties in such manner as it deems advisable in its sole discretion. Licensee agrees to indemnify and hold harmless, MPS, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that MPS, its officers, employees, affiliates and agents may incur as a result of Licensee's failure to comply with any provision of the VISA Documentation, the Agreement or this Addendum or for any other reason in connection with the Gateway Services provided hereunder, whether incurred by or as a result of the action or failure of the act of MPS or Licensee, or their agents. This indemnification shall survive the termination of the Agreement and/or to this Addendum.

F. MODIFICATION

In the event of any changes or modifications to the VISA Documentation which affect the responsibilities of a Member, MPS may amend this Agreement upon 30 days prior written notice to Licensee. MPS may change the fees and charges at any time upon a minimum of 30 days prior written notice to Licensee. In the event such change in fees is in excess of the limit set forth in the Agreement, the Licensee shall have the right to terminate this Addendum by giving written notice thereof within 30 days after the date of notice of change in fees and charges from MPS. Simultaneously therewith, Licensee shall give the necessary notice to VISA of termination of its membership in VISA as a Member. Termination of this Addendum shall be effective the later of 30 days from receipt by MPS of notice of termination, or the effective date of termination as set by VISA, but in no event later than 6 months from the date of Licensee's notice of termination.

THE PARTIES ACKNOWLEDGE THAT THE MASTER DATA PROCESSING AGREEMENT BETWEEN THEM, AS SUPPLEMENTED BY THIS AND OTHER ADDENDA, SET FORTH THE COMPLETE AND EXCLUSIVE AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SERVICES PROVIDED AND UNLESS SPECIFICALLY PROVIDED FOR IN THIS ADDENDUM, THE SERVICES DESCRIBED

HEREIN SHALL NOT INCLUDE ANY OF THE SERVICES OUTLINED IN THE DEFINITIONS AND GENERAL SERVICES ADDENDUM OR OTHER ADDENDA WHICH MAY BE A PREREQUISITE FOR THE SERVICES DESCRIBED HEREIN.

MIDWEST PAYMENT SYSTEMS, INC.

By: /s/ BARRY L. BOERSTLER

Name: BARRY L. BOERSTLER

Title: SENIOR VICE PRESIDENT

Date: NOV 30, 1998

LICENSEE: HERITAGE OAKS BANK

By: /s/ LAWRENCE P. WARD

Name: LAWRENCE P. WARD

Title: PRESIDENT

Date: 11-30-1998

3-FU

ADDENDUM KU TO MASTER DATA PROCESSING AGREEMENT
DISCOVER CARD GATEWAY SERVICES -- SPONSORED ATM ACQUIRER MEMBER

This Agreement shall be an Addendum to the Master Data Processing Agreement (the "Agreement"), dated October 1, 1998 between HERITAGE OAKS BANK ("Licensee"), having its principal offices at 545 Twelfth Street, Paso Robles, CA 93446, and MIDWEST PAYMENT SYSTEMS, INC. ("MPS").

I. MPS has entered into an agreement with Discover Card Services, Inc. and/or NOVUS Services, Inc. (collectively and individually "DCSI"), where MPS can make available to DCSI cardholders certain ATMs operated or accessed through MPS systems, computers, and communications to obtain cash.

II. MPS has the systems, computers and communications necessary to allow it to interface with the DCSI Switch to accept credit and automated teller machine access cards issued by DCSI ("Discover Cards").

III. License desires to use the systems, computers, and communication facilities of MPS to interface with the DCSI Switch to allow Discover Card transactions at its cash disbursement automated teller machines and/or scrip dispensers and/or other devices (collectively referred to as "ATMs").

IV. MPS is willing to provide Gateway Services to Licensee, as more fully described herein, subject to the following terms and conditions.

NOW, THEREFORE, in consideration of the foregoing recitals and of mutual promises hereinafter set forth, the parties agree as follows:

A. DEFINITIONS

For the purposes of this Agreement, the following terms shall mean:

AGENT PROCESSOR CENTER ("APC") means MPS, which is the processing center directly connected to the DCSI Switch.

CORRESPONDING MEMBER CENTER ("CMC") means the processing center directly connected to MPS, which could be the Licensee's data center, MPS or a third party processor.

DIRECT MEMBER is an institution (including MPS) which has entered into an agreement with DCSI to accept Discover Card transactions at ATMs owned, operated, controlled, or gatewayed by it through the APC.

DCSI DOCUMENTATION means the Operating Rules and other rules, regulations and procedures (including MPS standards) determined by MPS to be relevant to and affecting the Gateway Services from time to time.

DCSI SWITCH means the computer-based system provided by DCSI to interface electronically with Members' ATMs or their files for the purpose of processing Discover Card transactions.

MEMBER is a Direct and/or Sponsored Member.

OPERATING RULES means MPS's regulations and standards determined to be relevant to and affecting Gateway Services which may change from time to time and the procedures set out in MPS's agreement with DCSI to allow MPS to provide ATM access to Discover Cards.

SPONSORED MEMBER is an institution which can accept Discover Card transactions at ATMs owned, operated, controlled, or gatewayed by it through the APC because of its sponsorship through a Direct Member and subsequent authorization by DCSI to be a Participant, as such term is defined in the agreement between MPS and DCSI to provide ATM access to Discover Cards.

Except for the terms defined above, the capitalized terms herein shall have the same meanings as ascribed to them in the Agreement or the Definitions and General Services Addendum. In the event of a conflict between the Agreement and this Addendum, this Addendum shall control.

B. TERM

The term of this Addendum shall commence on October 1, 1998, and shall continue for a term of _____ years or until the termination of the agreement between MPS and DCSI to provide ATM access to Discover Cards (whichever event

shall earlier occur) from the 1st day of the calendar month following the above date or the date of DCSI's acceptance of Licensee as a Sponsored Member through MPS as the Direct Member or the date of Licensee's conversion to MPS for Gateway Services ("Initial Term"), whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to the Initial Term.

1-KU

C. SERVICES AND FEES

GATEWAY SERVICES shall mean the data processing systems and procedures provided by MPS to facilitate ATM sharing between Licensee and Discover Cards. Discover Card transactions initiated at Licensee's terminals and received by MPS from Licensee's CMC are routed to the DCSI Switch.

MPS is the message processing entity positioned between the Licensee and the DCSI Switch or other Members. The transaction record format between the Licensee's CMC and MPS will be the MPS version of ANSI X9.2 or such other format as may be mutually agreed upon between MPS and Licensee.

Licensee agrees to pay the following fees for the Gateway Services set forth below:

- | | |
|---------------------------|-------------------|
| 1) Set Up Fee | \$500 |
| Disconnect Fee | \$500 |
| 2) Monthly Assessment Fee | \$150/month |
| 3) Documentation Fees | |
| -DCSI Documentation | \$75/copy |
| -Amendments/Supplements | \$50/copy |
| 4) Adjustments | \$5.00/adjustment |

This fee applies to every DCSI adjustment submitted by or received by MPS on behalf of Member Institutions.

Licensee acknowledges and agrees that DCSI will pay interchange and other fees to MPS for all Discover Card transactions and in turn MPS will pay Licensee \$.65 each time a Discover Card cash withdrawal transaction is authorized and completed on an ATM of Licensee, \$.25 each time a Discover Card inquiry transaction is authorized and completed on an ATM of Licensee and \$.25 each time a Discover Card transaction is denied on an ATM of Licensee provided DCSI pays MPS for such transactions. Licensee agrees to pay MPS \$.07 per every DCSI acquirer transaction processed by MPS in connection with the Gateway Services.

D. GENERAL PROVISIONS

- 1) MPS will process Licensee as a Sponsored Member in accordance with the procedures set out in the Operating Rules and its agreement with DCSI.
- 2) Licensee hereby agrees to take all steps necessary to settle with MPS for

Discover Card transactions involving its terminals.

3) MPS will provide Licensee within 30 days of the effective date of this Addendum a copy of the DCSI Documentation in effect on the date of this Agreement. Licensee agrees to abide by and fully comply with the DCSI Documentation as may be in effect from time to time, and to perform and fulfill any and all obligations and responsibilities, and discharge any and all duties and liabilities, relating to MPS, DCSI or Members to which it may be subject in accordance with such DCSI Documentation, Operating Rules, or resolutions adopted by the DCSI Board of Directors, or which may arise in any other manner or from any other source related to the Gateway Services.

4) Licensee agrees that, upon request by MPS, it will periodically provide to MPS certification in writing of its compliance with all Operating Rules applicable to Licensee, or to MPS as processor and sponsor for Licensee, and with DCSI Documentation.

5) Licensee will provide personnel, one of whom shall be a management level technical interface person, to monitor, oversee and maintain its participation with DCSI. From time to time, MPS will require communication with Licensee's personnel, and Licensee agrees to provide names, telephone number(s), and schedules of such personnel throughout the period of the Licensee's membership with DCSI.

6) MPS will make available to Licensee activity files in a MPS format of its DCSI transactions, unless similar information is provided by MPS through other services provided to Licensee.

7) MPS will not provide: (i) routing of activity files received from DCSI to Licensee; or (ii) any other files or reports not specifically described above.

8) Licensee agrees to allow the auditors of MPS or DCSI to review the files held and procedures followed by Licensee in connection with the Gateway Services.

2-KU

9) Licensee shall be responsible for communicating with and making any necessary reconciliation or adjustments in accordance with the DCSI Documentation.

10) Licensee authorizes MPS to notify DCSI in writing of its desire to become a Sponsored Member through sponsorship by MPS. Licensee also authorizes MPS to provide DCSI with such information about Licensee as may be required by DCSI and the Operating Rules.

11) Licensee agrees to display the Discover Card and/or NOVUS Services, Inc. trademark according to the DCSI documentation except where explicitly prohibited by national and/or regional networks in which Licensee participates.

12) Licensee agrees to be responsible for all direct and indirect costs (including but not limited to those incurred by MPS) in connection with and/or related to Licensee's conversion from MPS at the termination of this Addendum and/or related to any conversion by Licensee in connection with its CMC after Licensee's initial conversion to MPS.

E. INDEMNIFICATION

Licensee agrees to pay all fees, assessments and penalties as they are currently in effect or may be changed from time to time, imposed by DCSI, whether billed directly to Licensee by DCSI or through MPS or its agents or affiliates. MPS may allocate any such fees, fines, assessments or penalties in such manner as it deems advisable in its sole discretion. Licensee agrees to indemnify and hold harmless, MPS, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that MPS, its officers, employees, affiliates and agents may incur as a result of Licensee's failure to comply with any provision of the DCSI Documentation, the agreement between DCSI and MPS, the Agreement or this Addendum or for any other reason in connection with the Gateway Services provided hereunder, whether incurred by or as a result of the action or failure to act of MPS or Licensee, or their agents. This indemnification shall survive the termination of the Agreement and/or this Addendum.

F. MODIFICATION

In the event of any changes or modifications to the DCSI Documentation which affect the responsibilities of a Member, MPS may amend this Agreement upon 30 days prior written notice to Licensee. MPS may change the fees and charges at any time upon a minimum of 30 days prior written notice to Licensee. In the event such change in fees is in excess of the limit set forth in the Agreement, the Licensee shall have the right to terminate this Addendum by giving written notice thereof within 30 days after the date of notice of change in fees and charges from MPS. Simultaneously therewith, termination of this Addendum shall be effective the later of 30 days from receipt by MPS of notice of termination, or the effective date of termination as set by DCSI, but in no event later than 4 months from the date of Licensee's notice of termination.

THE PARTIES ACKNOWLEDGE THAT THE MASTER DATA PROCESSING AGREEMENT BETWEEN THEM, AS SUPPLEMENTED BY THIS AND OTHER ADDENDA, SET FORTH THE COMPLETE AND EXCLUSIVE AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SERVICES PROVIDED AND UNLESS SPECIFICALLY PROVIDED FOR IN THIS ADDENDUM, THE SERVICES DESCRIBED HEREIN SHALL NOT INCLUDE ANY OF THE SERVICES OUTLINED IN THE DEFINITIONS AND GENERAL SERVICES ADDENDUM OR OTHER ADDENDA WHICH MAY BE A PREREQUISITE FOR THE SERVICES DESCRIBED HEREIN.

MIDWEST PAYMENT SYSTEMS, INC.

By:/s/ Barry L. Boerstler

Name: Barry L. Boerstler

Title: Senior Vice President

Date: Nov 30 1998

LICENSEE: HERITAGE OAKS BANK

By:/s/ Lawrence P. Ward

Name: Lawrence P. Ward

Title: _____

Date: _____

3-KU

EXHIBIT 99.4

ADDENDUM NA TO MASTER DATA PROCESSING AGREEMENT
INTERCEPT AND PROCESSOR SERVICES

This Agreement shall be an Addendum to the Master Data Processing Agreement (the "Agreement"), dated October 1, 1998 between HERITAGE OAKS BANK ("Customer"), having its principal offices at 545 Twelfth Street, Paso Robles, CA 93446, and MIDWEST PAYMENT SYSTEMS, INC. ("MPS"). Customer is a member of the _____ ("Network").

1. Customer desires to contract with MPS to provide the systems, computers and communications necessary to allow it to operate Customer authorized terminals to acquire transactions for Customer, Member Institutions and others, and to accept those transactions for processing and authorization.

NOW, THEREFORE, in consideration of the foregoing recitals and of mutual promises hereinafter set forth, the parties agree as follows:

A. DEFINITIONS

For the purposes of this Agreement, the following terms shall mean:

MEMBER INSTITUTION shall mean any financial institution such as a bank, thrift or credit union which is authorized by the Network to participate in the Network.

NETWORK SWITCH shall mean the data processing servicer authorized by the Network which may be used to route transactions between providers of intercept services and processor services.

Except for the terms defined herein, the capitalized terms herein shall have the same meanings as ascribed to them in the Agreement or the Definitions and General Services Addendum as may be published by MPS from time to time. In the event of a conflict between the Agreement and this Addendum, this Addendum shall control.

B. TERM

The term of this Addendum shall commence October 1, 1998, and shall continue for a term of ___ years from the 1st day of the calendar month following the above date or the date of Customer's conversion to MPS for Intercept and Processor Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives written notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods

equal to the Initial Term.

C. INTERCEPT AND PROCESSOR SERVICES AND FEES

INTERCEPT SERVICES shall mean the data processing systems and procedures provided by MPS to operate Customer authorized terminals to acquire transactions for Customer, Member Institutions, non-Network members, and others as authorized by Customer or MPS. Transactions performed on Customer's terminals by Customer's cardholders shall be processed by MPS using Processor Services. All other acquired transactions shall be routed, at the option of MPS, to the Network Switch, to Member Institutions, to MPS or to other servicers.

PROCESSOR SERVICES shall mean the data processing systems and procedures provided by MPS to accept and authorize EFT transactions including ATM transactions in accordance with the stand MPS options selected by Customer. Customer's EFT transactions may be routed to MPS from Customer, the Network Switch, Member Institutions, non-Network members, MPS and others. Such routing shall be determined by MPS.

The transaction record format between the Customer and MPS will be the MPS version of ANSI X9.2 or such other format as may be mutually agreed upon between MPS and Customer.

Customer agrees to pay the following fees for the Intercept and Processor Service set forth below:

1. ATM Access Fees

(tiering cumulative)

- 0 - 15 ATMs \$125/ATM/month
(subject to a maximum fee of \$1,537.50/month)

- 16 - 25 ATMs \$75/ATM/month
(subject to a maximum fee of \$1,537.50/month
and subject to a maximum fee of \$1,600/month)

1-NA

- 26 and above ATMs \$50/ATM/month
(subject to a minimum fee of \$1,600/month)

2. ATM Site Preparation Fees

a) Off-Site Support and Consulting \$500/ATM

- ATM installation consulting
- Sample site configuration
- Power requirements
- Cost effectiveness consulting
- Contractor consulting
- Order communications equipment and lines
- ATM vendor consultation
- Off-site troubleshooting

b) On-site ATM Support \$500/ATM/site visit
- Installation of modems plus expenses
- On-site ATM connection

3. Transaction Fees

Intercept and Processor transaction fees are assessed to Customer for all cardholder and ATM transactions. Intercept and Processor transaction fees are in addition to gateway, surcharge and other transaction fees assessed under this or other Addenda. Customer can choose one of three available options for each card type:

Option X - Remote Authorization. MPS receives the transaction, processes the transaction in a partial fashion and switches the transaction to a remote data center for account authorization. Local account balances are not resident at MPS.

Option Y - Limits. MPS receives the transaction and provides independent authorization based on card limits established by Customer. Account level balance authorization is not available.

Option Z - Relational Data Base. MPS receives the transaction and provides authorization services at both the card level and account level. Cross referencing is provided between the cardholder name, card number and various cardholder accounts. Local account balances may be updated via CRT or batch EFT extract updating. The transaction can optionally be switched to a remote data center for account authorization.

a) All Transactions
(tiering cumulative)

- 0 - 75,000 transactions \$.065/transaction
(subject to a maximum fee of \$4,400/month)
- 75,001 - 150,000 transactions \$.0525/transaction
(subject to a minimum fee of \$4,400/month
and subject to a maximum fee of \$7,300/month)
- 150,001 and above transactions \$.045/transaction
(subject to a minimum fee of \$7,300/month)

b) Positive Balance Authorization Surcharge \$.035/transaction
(for all cardholder transactions involving Option Z)

c) Stand-in Processing Surcharge

- Stand-in Transaction Fee Surcharge
Assessed in addition to the Transaction Fees for:
1) all cardholder transactions processed under Options Y and Z, and 2) all cardholder transactions involving Option X only when stand-in is active for Customer. \$.03/transaction

2-NA

4. Card Management (Cluster) Services

- a) Plastic debt or credit card file
One Cluster for each plastic or plastics

with the same account number.

- Multiple types of plastics
 - Network ATM card
 - Visa
 - MasterCard
- Multiple account authority
 - Inquiry
 - Withdrawal/debit
 - Deposit/credit
 - Overdraft
- Multiple accounts per plastic (10 per account type)
 - Demand Deposit
 - Savings
 - Installment Loan
 - Visa and MasterCard Debit/Credit cards
 - Certificate of Deposit, including IRA
 - Mortgage Loan
 - Revolving Credit account
- External PIN validation (no algorithm)
- Online transaction history
- Authorization limits by Customer or cardholder
- Disk space for cluster file
- Card limits
- Card status

All Cards

(tiering cumulative)

- 0 - 25,000 cards \$.05/card cluster/month
(subject to a maximum fee of \$1,100/month)
- 25,001 - 50,000 cards \$.0375/card cluster/month
(subject to a minimum fee of \$1,100/month
and subject to a maximum fee of \$1,550/month)
- 50,001 and above cards \$.025/card cluster/month
(subject to a minimum fee of \$1,500/month)

b) Cluster File Extension Support

- Customer name and address file
- CRT lookup by customer name or card number
- Cross referencing customer name to multiple card files
- Batch updating ability for cluster file
 - For Option X and Y \$.02/cluster/month
 - For Option Z N/C

c) Account File Residency (Option Z) \$.02/account/month

d) CRT File Updates \$.05/update

e) Cluster PIN Validation transaction fee surcharge.

Applies to cluster file when PIN is derived from the card track II data using a software algorithm and, optionally, a key. All plastics in each card type must use the same algorithm. \$.01/transaction

5. Interface and Setup Fees

Setup fees apply whenever a new card or account type is added as well as when the magnetic stripe track II data account number format or the account file numbering scheme changes. Setup fees also apply in the Customer converts among options X, Y and Z.

a) Customer Setup Fee \$5,000

At Customer's conversion to MPS, this fee shall include one Remote Authorization interface as defined in Section C.5.e herein below if applicable.

b) Card Management file setup fee N/C

c) Card Management file conversion fee
 - Cluster (card) file \$1,000/card type
 - Name and Address file for Options X and Y \$1,000/file
 - Name and Address file for Option Z N/C
 - Account file for Option Z \$1,000/file

d) Card Management PIN Validation setup
 - Existing algorithm \$1,000/BIN
 - New algorithm \$3,000/BIN

e) Remote authorization interface from MPS to each account authorization Data Center in standard MPS format. \$5,000/Interface

f) Remote authorization interface from MPS Processor to each account authorization Data Center using non-standard MPS format. Standard hourly rate/Interface

6. Stand-in Processing Residency Fees
 (applicable when clusters not maintained at MPS)

a. File residency (allowance of a combined total of 5000 positive, VIP and negative records included) \$200/file/month

b. File residency extension for combined total of positive, VIP and negative records in excess of 5000 per Processor \$.05/record/month

c. CRT file updates \$.05/update

d. File refresh/synchronization
 - First run per month N/C
 - Additional runs each month \$50/run

e. File transmission via RJE \$150/file

f. File setup \$1,000/file

D. NETWORK ACCESS SERVICES

The access service fees for the Network include MPS' initial installation and recurring maintenance fees associated with Customer's interface to the Network Switch under current Network's standards. These fees do not include any network fees assessed to Customer or to MPS as a result of Customer's participation in the Network.

4-NA

<TABLE>
<CAPTION>

NETWORK -----	SETUP FEE -----	MONTHLY ACCESS FEE -----
<S>	<C>	<C>
Alert	\$3,000	\$250/month
Bank Mate	\$3,000	\$250/month
Gulfnet	\$3,000	\$250/month
MAC (East or West)	\$3,000	\$250/month
Magic Line	\$3,000	\$250/month
MOST	\$3,000	\$250/month
Money Station	\$3,000	\$250/month
InfiNet (NYCE)	\$3,000	\$250/month
Presto	\$3,000	\$250/month
Pulse	\$3,000	\$250/month
Rock Valley (EFTI)	\$3,000	\$250/month
STAR	\$6,000	\$300/month
Southeast Switch (HONOR)	\$5,000	\$250/month
Other	Quoted	Quoted

</TABLE>

E. OTHER SERVICES AND FEES

1. Online Adjustment System Fees \$75/month
 - a) File residency \$.10/update
 - b) CRT file updates \$300
 - c) File setup
2. Online Deposit System (DEPSI) Fees
 - a) File residency N/C
 - b) CRT file updates \$.10/update
 - c) File setup N/C
3. Communication Controller Access Fees
 - a) Remote Authorization Data Center

less than or equal to 9600 Baud	
- Private Use Port	\$250/port/month
- Shared Use Port	\$125/port/month
b) RJE point-to-point port - less than or equal to 9600 Baud	\$150/port/month
c) Private multi-drop (CRT, RJE) line - less than or equal to 9600 Baud	\$150/port/month
d) Dial-up devices (CRT, RJE)	\$35/device/month
e) Other	Quoted

4. Telecommunication Setup and Access Fees

a) RJE setup fee	
- Standard Electronic Transmission using IBM Standard Remote Job Entry	\$1,000/destination
b) RJE access fee	
- First destination	N/C
- Additional destinations	\$1,000/destination/month

5-NA

c) CRT access fee	
- first two CRTs plus additional CRT up to the number of Customer ATMs connected to MPS	N/C
- Additional CRTs	\$25/CRT/month
d) ATM definition fee	\$160/ATM
	(subject to a \$640 minimum/requests)

5. Other Fees

a) Microfiche reporting	\$2.20/microfiche page
b) Federal Reserve Settlement	\$7.00/month
c) ATM monitoring & dispatching	\$21.00/month/ATM
d) RJE Usage Fees	
- Lease Line Usage	\$.001297/transaction
- Dial-up Usage	\$.003674/transaction
e) Other Services	Quoted

6. MPS Standards

Customer shall be entitled to one copy of the MPS Standards and updates as published from time to time as it relates to Intercept Services and Processor Services provided herein.

G. REPORTS AND SETTLEMENT

MPS will provide Customer standard MPS reports for the services provided to Customer. MPS will debit or credit Customer's accounts to settle monetary transactions. Reports and settlement procedures are defined in the Standards.

H. SERVICES AND EXPENSES NOT PROVIDED BY MPS

Certain services and expenses will be the sole responsibility of Customer and include but are not limited to the following:

1. External costs for interchange settlement.
 2. Individual terminals, modems, upgrades, modem sharing devices, etc.
 3. Data entry of account balances, maintenance data, etc.
 4. Communications lines, equipment, installation and maintenance costs to the MPS Communications Controller.
 5. Costs associated with maintaining and implementing all software and hardware necessary to interface to MPS in accordance with Network and MPS standards. This includes communication drop charges, modems and lines to the MPS data center and for disaster backup capability and any MPS communication equipment necessary to support Customer's unique operating environment, including but not limited to protocol converters. MPS is not responsible for terminal upgrades required to meet Network and MPS standards.
 6. Costs incurred by PMS Network Control for contacting Customer, processors, terminal owners and response teams in performing the Services.
 7. Verification of network settlement, proving of deposits and handling of exception items.
 8. Physical magnetic tape or disk file output for Customer use.
 9. Postage, printing, and courier costs associated with non-electronically transmitted reports, and all other postage costs associated with the services provided herein.
- 6-NA
10. Communications equipment, lines and drop or communication access charges to other switches.
 11. Costs associated with RJE.
 12. Fees assessed by Network Switch or others.
 13. All fines, fees, assessments, inquiries, adjustments and other billings charged to MPS by Network, or charged to Customer as a result of MPS's actions or inaction, in connection with Customer's participation in the Network.
 14. Costs associated with hardware and/or software changes (including but not

limited to those of MPS) as a result of changes in Network's standards.

- 15. Customer agrees to be responsible for all direct and indirect costs (including but not limited to those incurred by MPS) in connection with and/or related to Customer's conversion from MPS at the termination of this Addendum and/or related to any conversion by Customer.

I. INDEMNIFICATION

Customer agrees to participate in Network in compliance with Network's by-laws and operating regulations and MPS's standards and this Addendum. Customer agrees to pay all fees, assessments and penalties as they are currently in effect or may be changed from time to time, imposed by Network, whether billed directly to Customer by Network or through MPS. MPS may allocate any such fees, fines, assessments or penalties in such manner as it deems advisable in its sole discretion. Customer agrees to indemnify and hold harmless MPS, its directors, officers, employees, affiliates and agents, from and against any losses or damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, incurred by MPS, its directors, officers, employees, affiliates and agents in connection with the Intercept and Processor Services provided hereunder, whether incurred by or as a result of the action or failure to act by MPS or Customer, or their agents. This indemnification shall survive the termination of the Agreement and/or this Addendum.

J. MODIFICATION

In the event the Network changes its Network standards in any manner, MPS may, at its option, modify this Addendum, the Intercept Services or the Processor Services upon 30 days prior written notice to Customer, or terminate this Addendum upon 60 days prior written notice to Customer.

THE PARTIES ACKNOWLEDGE THAT THE MASTER DATA PROCESSING AGREEMENT BETWEEN THEM, AS SUPPLEMENTED BY THIS AND OTHER ADDENDA, SET FORTH THE COMPLETE AND EXCLUSIVE AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SERVICES PROVIDED AND UNLESS SPECIFICALLY PROVIDED FOR IN THIS ADDENDUM, THE SERVICES DESCRIBED HEREIN SHALL NOT INCLUDE ANY OF THE SERVICES OUTLINED IN THE DEFINITIONS AND GENERAL SERVICES ADDENDUM OR OTHER ADDENDA WHICH MAY BE A PREREQUISITE FOR THE SERVICES DESCRIBED HEREIN.

MIDWEST PAYMENT SYSTEMS, INC.

By: /s/ Barry L. Boerstler

Name: Barry L. Boerstler

Title: Senior Vice President

Date: November 30, 1998

CUSTOMER: HERITAGE OAKS BANK

By: /s/ Lawrence P. Ward

Name: Lawrence P. Ward

Title: President

Date: November 30, 1998

7-NA

0192-998

ADDENDUM TU TO MASTER DATA PROCESSING AGREEMENT
AMERICAN EXPRESS NETWORK GATEWAY SERVICES - ATM ACQUIRER MEMBER

This Agreement shall be an Addendum to the Master Data Processing Agreement (the ("Agreement")), dated October 1, 1988 between HERITAGE OAKS BANK ("Licensee"), having its principal offices at 545 Twelfth Street, Paso Robles, CA 93446 and MIDWEST PAYMENT SYSTEMS, INC. ("MPS").

I. MPS has entered into an agreement with American Express Travel Related Services Company, Inc. ("AE") where MPS can make available to AE cardholders certain ATMs operated or accessed through MPS systems, computers, and communications to obtain cash.

II. MPS has the systems, computers and communications necessary to allow it to interface with the AE Switch for the American Express Express Cash Program ("AEECP").

III. Licensee desires to use the systems, computers, and communication facilities of MPS to interface with the AE Switch to allow the participation in AEECP of its cash disbursement automated teller machines and/or scrip dispensers and/or other devices (collectively referred to as "ATM").

IV. MPS is willing to provide Gateway Services to Licensee, as more fully described herein, subject to the following terms and conditions.

NOW, THEREFORE, in consideration of the foregoing recitals and of mutual promises hereinafter set forth, the parties agree as follows:

A. DEFINITIONS

For the purposes of this Agreement, the following terms shall mean:

CORRESPONDING MEMBER CENTER ("CMC") means the processing center directly connected to MPS, which could be the Licensee's data center, MPS or a third party processor.

AE DOCUMENTATION means the Operating Rules and other rules, regulations and procedures (including MPS standards) determined by MPS to be relevant to and affecting the Gateway Services from time to time.

AE SWITCH means the computer-based system provided by AE in accordance with the Operating Rules for AEECP.

MEMBER means an organization (including AE) authorized by AE to participate in AEECP.

OPERATING RULES means the American Express Funds Access Express Cash Program Operations Guide and American Express Funds Access Express Cash Program Implementation Guide as amended from time to time.

Except for the terms defined above, the capitalized terms herein shall have the same meanings as ascribed to them in the Agreement or the Definitions and General Services Addendum. In the event of a conflict between the Agreement and this Addendum, this Addendum shall control.

B. TERM

The term of this Addendum shall commence October 1, 1998, and shall continue for a term of ____ years or until the termination of the agreement between MPS and AE (whichever event shall earlier occur) from the 1st day of the calendar month following the above date or the date of AE's acceptance of Licensee as a Member or the date of Licensee's conversion to MPS for Gateway Services ("Initial Term") whichever event shall later occur. Except as hereafter provided, unless either party gives notice to the other party at least 120 days prior to the expiration of any term, the Agreement and this Addendum shall be automatically extended for additional periods equal to the Initial Term.

C. SERVICES AND FEES

GATEWAY SERVICES shall mean the data processing systems and procedures provided by MPS to facilitate ATM sharing in AEECP between Licensee and/or other Members. Other Members' AEECP transactions initiated at Licensee's terminals and received by MPS from Licensee's CMC are routed to the AE Switch or, at the option of MPS, routed directly to another Member.

1-TU

MPS is the message processing entity positioned between the Licensee and the AE Switch or other Members. The transaction record format between the Licensee's CMC and MPS version of ANSI X9.2 or such other format as may be mutually agreed upon between MPS and Licensee.

Licensee agrees to pay the following fees for the Gateway Services set forth below:

- | | |
|--|-----------|
| 1) Set Up Fee | \$500 |
| Disconnect Fee | \$500 |
| 2) Monthly Assessment Fee | |
| \$150/month | |
| 3) Documentation Fees | |
| - AE Documentation | \$75/copy |
| - Amendments/Supplements | \$50/copy |
| 4) Adjustments | |
| \$5.00/adjustment | |
| This fee applies to every AEECP adjustment submitted by or received by MPS on behalf of Member Institutions. | |

Licensee acknowledges and agrees that AE will pay interchange and other fees to MPS for all Licensee's AEECP acquirer transactions and in turn MPS will pay Licensee \$.65 each time a cash withdrawal transaction by an AE cardholder of another Member is authorized and completed on a terminal of Licensee.

Licensee agrees to pay MPS \$.07 per every AEECP acquirer transaction processed by MPS in connection with Gateway Services.

D. GENERAL PROVISIONS

- 1) MPS will process License as a Member in accordance with the procedures set out in the Operating Rules and its agreement with AE.
 - 2) Licensee hereby agrees to take all steps necessary to settle with MPS for AEECP transactions involving its terminals.
 - 3) MPS will provide Licensee within 30 days of the effective date of this Addendum a copy of the AE Documentation in effect on the date of this Agreement. Licensee agrees to abide by and fully comply with the AE Documentation as may be in effect from time to time, and to perform and fulfill any and all obligations and responsibilities, and discharge any and all duties and liabilities, relating to MPS, AE or its Members to which it may be subject in accordance with such AE Documentation, Operating Rules, or resolutions adopted by the AE Board of Directors, or which may arise in any other manner or from any other source related to the Gateway Services.
 - 4) Licensee agrees that, upon request by MPS, it will periodically provide to MPS certification in writing of its compliance with all AE Operating Rules applicable to Licensee, or to MPS as processor for Licensee, and with the AE documentation.
 - 5) Licensee will provide personnel, one of whom shall be a management level technical interface person, to monitor, oversee and maintain its participation in AEECP. From time to time, MPS will require communication with Licensee's personnel, and Licensee agrees to provide names, telephone number(s), and schedules of such personnel throughout the period of the Licensee's membership in AEECP.
 - 6) MPS will make available to Licensee activity files in a MPS format of its AEECP transactions, unless similar information is provided by MPS through other services provided to Licensee.
 - 7) MPS will not provide: (i) routing activity files received from AE to Licensee; or (ii) any other files or reports not specifically described above.
 - 8) Licensee agrees to allow the auditors of MPS or AE to review the files held and procedures followed by Licensee in connection with the Gateway Services.
 - 9) Licensee shall be responsible for communicating with and making any necessary reconciliation or adjustments in accordance with the AE Documentation.
- 2-TU
- 10) Licensee authorizes MPS to notify AE in writing of its desire to become a Member. Licensee also authorizes MPS to provide AE with such information about Licensee as required according to the agreement between MPS and AE and the Operating Rules.
 - 11) Licensee agrees to display the AEECP trademark according to the AE Documentation except when explicitly prohibited by national and/or related networks in which Licensee participates.

12) Licensee agrees to be responsible for all direct and indirect costs (including but not limited to those incurred by MPS) in connection with and/or related to Licensee's conversion from MPS at the termination of this Addendum and/or related to any conversion by Licensee in connection with its CMC after Licensee's initial conversion to MPS.

E. INDEMNIFICATION

Licensee agrees to pay all fees, assessments and penalties as they are currently in effect or may be charged from time to time, imposed by AE, whether billed directly to Licensee by AE or through MPS or its agents or affiliates in connection with Licensee's participation in AEECP. MPS may allocate any such fees, fines, assessments or penalties in such manner as it deems advisable in its sole discretion. Licensee agrees to indemnify and hold harmless, MPS, its officers, employees, affiliates and agents, from and against any losses, damages, fees, fines, penalties and expenses, including reasonable legal and accounting fees and expenses, that MPS, its officers, employees, affiliates and agents may incur as a result of Licensee's failure to comply with any provision of the AE Documentation, the agreement between AE and MPS, the Agreement or this Addendum or for any other reason in connection with the Gateway Services provided hereunder, whether incurred by or as a result of the action or failure to act of MPS or Licensee, or their agents. This indemnification shall survive the termination of the Agreement and/or this Addendum.

F. NOTIFICATION

In the event of any changes or modifications to the AE Documentation which affect the responsibilities of a Member, MPS may amend this Agreement upon 30 days prior written notice to Licensee. MPS may change the fees and charges at any time upon a minimum of 30 days prior written notice to Licensee. In the event such change in fees is in excess of the limit set forth in the Agreement, the Licensee shall have the right to terminate this Addendum by giving written notice thereof within 30 days after the date of notice of change in fees and charges from MPS. Simultaneously therewith, Licensee shall give the necessary notice to AE of termination of its membership in AE as a Member. Termination of this Addendum shall be effective the later of 30 days from receipt by MPS of notice of termination, or the effective date of termination as set by AE, but in no event later than 6 months from the date of Licensee's notice of termination.

THE PARTIES ACKNOWLEDGE THAT THE MASTER DATA PROCESSING AGREEMENT BETWEEN THEM, AS SUPPLEMENTED BY THIS AND OTHER ADDENDA, SET FORTH THE COMPLETE AND EXCLUSIVE AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SERVICES PROVIDED AND UNLESS SPECIFICALLY PROVIDED FOR IN THIS ADDENDUM, THE SERVICES DESCRIBED HEREIN SHALL NOT INCLUDE ANY OF THE SERVICES OUTLINED IN THE DEFINITIONS AND GENERAL SERVICES ADDENDUM OR OTHER ADDENDA WHICH MAY BE A PREREQUISITE FOR THE SERVICES DESCRIBED HEREIN.

MIDWEST PAYMENT SYSTEMS, INC.

By: /s/ BARRY L. BOERSTLER

Name: BARRY L. BOERSTLER

Title: SENIOR VICE PRESIDENT

Date: NOV 30, 1998

LICENSEE: HERITAGE OAKS BANK

By: /s/ LAWRENCE P. WARD

Name: LAWRENCE P. WARD

Title: PRESIDENT

Date: 11-30-98

3-TU

[LETTERHEAD]

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To: Heritage Oaks Bancorp

We consent to the incorporation of our report dated February 5, 1999, on the consolidated financial statements of Heritage Oaks Bancorp and Subsidiaries as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, included in its Annual Report on Form 10-KSB for the year ended December 31, 1998.

/s/ VAVRINEK, TRINE, DAY & CO., LLP

VAVRINEK, TRINE, DAY & CO., LLP

Certified Public Accountants

Rancho Cucamonga, California

March 25, 1999

<TABLE> <S> <C>

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